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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 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)

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. Switching from the completed-contract method of accounting to the percentage-ofcompletion method is a 'change in accounting principle.'

Question 2

Question Type: **MultipleChoice**

A statement of cash flows for a development stage enterprise:

Options:

A- Is the same as that of an established operating enterprise and, in addition, shows cumulative amounts from the enterprise's inception.

B- Shows only cumulative amounts from the enterprise's inception.

C- Is the same as that of an established operating enterprise, but does not show cumulative amounts from the enterprise's inception.

D- Is not presented.

Answer:

A

Explanation:

Rule: Development stage enterprises should present financial statements in accordance with GAAP and make additional disclosures such as cumulative amounts from inception for: net losses, deficits, sales, expenses, and cash flows and supplementary data.

Choice 'a' is correct, per the rule shown above.

Choice 'b' is incorrect. Current amounts are shown as well as cumulative amounts.

Choice 'c' is incorrect. Cumulative amounts from inception are shown.

Choice 'd' is incorrect. A statement of cash flows is required.

Question 3

Question Type: MultipleChoice

Financial reporting by a development stage enterprise differs from financial reporting for an established operating enterprise in regard to footnote disclosures:

Options:

A- Only.

B- And expense recognition principles only.

C- And revenue recognition principles only.

D- And revenue and expense recognition principles.

Answer:

A

Explanation:

Choice 'a' is correct. Financial reporting by a development stage enterprise differs from financial reporting for an established operating enterprise in regard to (more extensive) footnote disclosures only.

Choices 'b', 'c', and 'd' are incorrect. Revenue and expense recognition principles are the same.

Rule: Development stage enterprises should present financial statements in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit (as part of equity), cumulative sales and expenses (as part of the income statement), cumulative statement of cash flows and supplementary 'shareholders equity.'

Question 4

Question Type: **MultipleChoice**

Deficits accumulated during the development stage of a company should be:

Options:

A- Reported as organization costs.

B- Reported as a part of stockholders' equity.

C- Capitalized and written off in the first year of principal operations.

D- Capitalized and amortized over a five year period beginning when principal operations commence.

Answer:

B

Explanation:

Choice 'b' is correct. Deficits accumulated during the development stage of a company should be reported as a part of stockholders' equity.

Rule: Development stage enterprises should present FS in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit (as part of equity), cumulative sales & expenses (part of I/S), cumulative statement of cash flows and supplementary 'shareholders equity.'

Choices 'a', 'c', and 'd' are incorrect, per the rule above.

Question 5

Question Type: MultipleChoice

Chester Corp. was a development stage enterprise from its inception on September 1, 1987 to December 31, 1988. The following information was taken from Chester's accounting records for the above period:

Net sales	$1,350,000
Cost of sales	1,000,000
Selling, general, and administrative expenses	400,000
Research and development costs	300,000
Interest expense	100,000

For the period September 1, 1987 to December 31, 1988, what amount should Chester report as net loss?

Options:

A- $ 50,000

B- $150,000

C- $350,000

D- $450,000

Answer:

D

Explanation:

Choice 'd' is correct. $450,000 net loss for the period Sept. 1, 1987 to DeC. 31, 1988.

Rule: 'Development stage enterprises' present their FS in accordance with GAAP and make additional disclosures such as: cumulative net losses, cumulative deficit, cumulative sales and expenses.

Net sales	$1,350,000
Cost of sales	(1,000,000)
Selling, general and administrative exp.	(400,000)
Research & development costs (100% expense)	(300,000)
Interest expense	(100,000)
Net loss (9/1/87 to 12/31/88)	(450,000)

Question 6

Question Type: **MultipleChoice**

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of $50,000,000, operating expenses of $47,000,000, and net income of $3,000,000. Operating expenses include payroll costs of $ 15,000,000. Grum's combined identifiable assets of all industry segments at December 31, 1991, were $40,000,000.

Cott Co.'s four business segments have revenues and identifiable assets expressed as percentages of Cott's total revenues and total assets as follows:

	Revenues	Assets
Ebon	64%	66%
Fair	14%	18%
Gel	14%	4%
Hak	8%	12%
	100%	100%

Which of these business segments are deemed to be reportable segments?

Options:

A- Ebon only.

B- Ebon and Fair only.

C- Ebon, Fair, and Gel only.

D- Ebon, Fair, Gel, and Hak.

Answer:

D

Explanation:

Rule: A segment must be at least 10% of:

1. Combined revenues (whether intersegment or unaffiliated customers), or

2. Operating income (of all segments not having an operating loss), or

3. Identifiable assets.

Choice 'd' is correct. Ebon, Fair, Gel, and Hak, since all four companies meet at least one of the criteria.

Question 7

Question Type: **MultipleChoice**

Grum Corp., a publicly-owned corporation, is subject to the requirements for segment reporting. In its income statement for the year ended December 31, 1991, Grum reported revenues of $50,000,000, operating expenses of $47,000,000, and net income of $3,000,000. Operating expenses include payroll costs of $ 15,000,000. Grum's combined identifiable assets of all industry segments at December 31, 1991, were $40,000,000.

In its 1991 financial statements, Grum should disclose major customer data if sales to any single customer amount to at least:

Options:

A- $300,000

B- $1,500,000

C- $4,000,000

D- $5,000,000

Answer:

D

Explanation:

Choice 'd' is correct. $5,000,000 (10% x $50,000,000 revenue). If revenue from a single external customer is 10% or more of total revenue, then the company should disclose this fact, the total amount of revenue from the customer, and the segment or segments reporting the revenues. The identity of the customer need not be disclosed.

Question 8

Question Type: MultipleChoice

YIV, Inc. is a multidivisional corporation, which has both intersegment sales and sales to unaffiliated customers. YIV should report segment financial information for each division meeting which of the following criteria?

Options:

A- Segment operating profit or loss is 10% or more of consolidated profit or loss.

B- Segment operating profit or loss is 10% or more of combined operating profit or loss of all company segments.

C- Segment revenue is 10% or more of combined revenue of all the company segments.

D- Segment revenue is 10% or more of consolidated revenue.

Answer:

C

Explanation:

Choice 'c' is correct. Segment revenue is 10% or more of combined revenue of all the company segments.

Rule: To be significant enough to report on, a segment must be at least 10% of:

1. Combined revenues (whether intersegment or affiliated customers) or

2. Operating profit (of all segments not having an operating loss), or

3. Identifiable assets.

Choice 'a' is incorrect. Rule is 10% of 'operating profit,' not 'consolidated profit.'

Choice 'b' is incorrect. Segments with 'operating losses' are not combined with those having 'operating profits' in determining a segment.

Choice 'd' is incorrect. 'Consolidated revenue' would not include 'intersegment revenue.' Rule is 'combined revenue,' not 'consolidated revenue.'

Question 9

Question Type: MultipleChoice

Hyde Corp. has three manufacturing divisions, each of which has been determined to be a reportable segment. In 1989, Clay division had sales of $3,000,000, which was 25% of Hyde's total sales, and had operating costs of $1,900,000, as reported to the CFO. In 1989, Hyde incurred operating costs of $500,000 that were not directly traceable to any of the divisions. In addition, Hyde incurred corporate interest expense of $300,000 in 1989. In reporting segment information, what amount should be shown as Clay's operating profit for 1989?

Options:

A- $875,000

B- $900,000

C- $975,000

D- $1,100,000

Answer:

D

Explanation:

Choice 'd' is correct. $1,100,000 operating profit for clay.

Rule: Operating profit by segments is based on the measure of profit reported to the 'chief operating decision maker.'

Allocations for general operating costs and interest, etc., should not be made solely for purposes of segment disclosures.

Sales	$3,000,000
Less operating costs	(1,900,000)
Sub total	$1,100,000

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