AICPA CPA-Financial Practice Questions

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Question 1

Question Type: MultipleChoice

According to the FASB conceptual framework, comprehensive income includes which of the following?

	Loss on discontinued operations	*Investments by owners*
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

Options:

A- Option A
B- Option B
C- Option C
D- Option D

Answer:

B

Explanation:

Choice 'b' is correct. Comprehensive income is the change in equity of a business during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity except those resulting from investments by owners and distributions to owners. SFAC 6 para 70.

Question 2

Question Type: MultipleChoice

On June 30, 1991, Mill Corp. incurred a $100,000 net loss from disposal of a component of a business. Also, on June 30, 1991, Mill paid $40,000 for property taxes assessed for the calendar year 1991. What amount of the foregoing items should be included in the determination of Mill's net income or loss for the six-month interim period ended June 30, 1991?

Options:

A- $140,000
B- $120,000
C- $90,000
D- $70,000

Answer:

B

Explanation:

Choice 'b' is correct. $120,000 expense included in the determination of net income or loss for the sixmonth interim period ended June 30, 1991.

Rules:	
The net loss on disposal of a component is recorded in the interim period incurred	$100,000
Property taxes should be allocated over the periods ($40,000 ÷ 2)	20,000
Expenses for six-month interim period	$120,000

Question 3

Question Type: MultipleChoice

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 option best accounting pronouncements are the most authoritative?

Options:

A- AICA Statements of Position.
B- AICPA Industry and Audit Guides.
C- FASB Statements of Financial Accounting Concepts.
D- FASB Statements of Financial Accounting Standards.

Answer:

D

Explanation:

Choice 'd' is correct. Since Arpco is a for-profit provider of healthcare services, it is covered under normal GAAP. Thus, the most authoritative pronouncements are the FASB Statements of Financial Accounting Standards (SFAS).

Choice 'a' is incorrect. AICPA Statements of Position are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover). They are normally 'merely' the opinion of the AICPA.

Choice 'b' is incorrect. AICPA Industry and Audit Guides are not the most authoritative pronouncement for almost anything (other than for some issues that only they cover).

Choice 'c' is incorrect. FASB Statements of Financial Accounting Concepts are not authoritative pronouncements except where they have been incorporated by reference into an SFAS. They are the basis on which SFAS can be constructed.

Question 4

Question Type: MultipleChoice

Lore Co. changed from the cash basis of accounting to the accrual basis of accounting during 1994. The cumulative effect of this change should be reported in Lore's 1994 financial statements as a:

Options:

A- Prior period adjustment resulting from the correction of an error.
B- Prior period adjustment resulting from the change in accounting principle.
C- Component of income before extraordinary item.
D- Component of income after extraordinary item.

Answer:

A

Explanation:

Choice 'a' is correct. The cash basis for financial reporting is not a generally accepted accounting basis of accounting (GAAP); therefore, it is an error. Correction of an error from a prior period is a reported as prior period adjustment to retained earnings.

Choice 'b' is incorrect. Cash basis reporting is not an accounting principle under accrual accounting principles. Thus, the change from cash basis is not reported as a change in accounting principle. In addition, changes in accounting principle are not prior period adjustments; instead, they are treated retrospectively.

Choices 'c' and 'd' are incorrect. Correction of prior period errors has no effect on the current year's income statement.

Question 5

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 6

Question Type: MultipleChoice

Envoy Co. manufactures and sells household products. Envoy experienced losses associated with its small appliance group. Operations and cash flows for this group can be clearly distinguished from the rest of Envoy's operations. Envoy plans to sell the small appliance group with its operations. What is the earliest point at which Envoy should report the small appliance group as a discontinued operation?

Options:

A- When Envoy classifies it as held for sale.
B- When Envoy receives an offer for the segment.
C- When Envoy first sells any of the assets of the segment.
D- When Envoy sells the majority of the assets of the segment.

Answer:

A

Explanation:

Choice 'a' is correct. The earliest period that a component of an entity can be reported in discontinued operations is when the component meets the following 'held for sale' criteria:

1. Management commits to a plan to sell the component.

2. The component is available for immediate sale in its present condition.

3. An active program to locate a buyer has been initiated.

4. The sale of the component is probable and the sale is expected to be completed within one year.

5. The sale of the component is being actively marketed.

6. It is unlikely that significant change to the plan to sell will be made or that the plan will be withdrawn.

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

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.

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.

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Question 8

Question Type: MultipleChoice

Kell Corp.'s $95,000 net income for the quarter ended September 30, 1990, included the following aftertax items:

* A $60,000 extraordinary gain, realized on April 30, 1990, was allocated equally to the second, third, and fourth quarters of 1990.

* A $16,000 cumulative-effect loss resulting from a change in inventory valuation method was recognized on August 2, 1990.

In addition, Kell paid $48,000 on February 1, 1990, for 1990 calendar-year property taxes. Of this amount, $12,000 was allocated to the third quarter of 1990.

For the quarter ended September 30, 1990, Kell should report net income of:

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Options:

A- $91,000
B- $103,000
C- $111,000
D- $115,000

Answer:

A

Explanation:

Choice 'a' is correct. $91,000 net income for the third quarter ended 9-30-90.

Rules: The entire amount of an 'extraordinary' item should be reported during the period incurred.

A 'cumulative effect' type accounting change is not included in the net income of the period of change; instead, the beginning of the year retained earnings is restated.

Expenses, which benefit more than one interim period, such as property taxes, are allocated among the periods benefited.

Third quarter income as originally calculated	$95,000
Less: 1/3 of second quarter extraordinary gain	(20,000)
Subtotal	$75,000
Plus: Cumulative effect of accounting change	16,000
Corrected third quarter net income	$91,000

Question 9

Question Type: MultipleChoice

Which option best is not a valuation technique that can be used to measure the fair value of an asset or liability?

Options:

A- The market approach.
B- The impairment approach.
C- The income approach.
D- The cost approach.

Answer:

B

Explanation:

Choice 'b' is correct. The impairment approach is not used to measure the fair value of an asset or liability. Instead, when an entity is determining whether an asset has been impaired, the entity will use the market approach, the income approach or the cost approach to determine the fair value of the asset.

Choice 'a' is incorrect. The market approach is an accepted method of fair value measurement

in which price and other market information from identical or comparable assets or liabilities is used to measure fair value.

Choice 'c' is incorrect. The income approach is an accepted method of fair value measurement in which future cash flows or earnings are discounted to determine fair value.

Choice 'd' is incorrect. The cost approach is an accepted method of fair value measurement in which current replacement cost is used to determine the fair value of an asset.

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