Test Bank for Financial Reporting and Analysis 6th Edition by Revsine Collins Johnson Mittelstaedt and Soffer ISBN 0078025672 9780078025679

True/False

[QUESTION]
1. To measure earnings under accrual accounting, revenue is recognized only when received.
Ans: False
LO: 1
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
2. Recognition of revenue under the cash basis occurs when the revenue is received.
Ans: True
LO: 1
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
3. Under the cash basis, expenses are recognized when the costs expire or assets are used.
Ans: False
LO: 1
Difficulty: Easy

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
4. Accrual accounting decouples measured earnings from operating cash inflows and outflows.
Ans: True
LO: 1
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]

5. Cash-basis accounting provides the most useful measure of future operating performance.
Ans: False
LO: 1
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
6. Accrual accounting can produce large discrepancies between the firm's reported profit performance and the amount of cash generated from operations.
Ans: True
LO: 1
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
7. The principles that govern revenue and expense recognition under accrual accounting are designed to alleviate the mismatching problems that exist under cash-basis accounting.
Ans: True
LO: 1
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
8. Reported accrual accounting net income for a period always provides an accurate picture of underlying economic performance.
Ans: False
LO: 1
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
9. Revenue is earned when the seller substantially completes performance required by an agreement.
Ans: True
LO: 2
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
10. The activities comprising the operating cycle are generally consistent across firms.
Ans: False
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA BB: Critical Thinking
Bloom's: Comprehension

[QUESTION]
11. Since net income is earned as a result of complex, multiple-stage processes, the key issue in net income determination is the timing of net income recognition.
Ans: True
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
12. According to generally accepted accounting principles, revenue should be recognized at the earliest time that both (1) the "critical event" has taken place, and (2) the proceeds have been collected.
Ans: False
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
13. GAAP specifies three conditions that must be satisfied in order for revenue to be appropriately recognized.
Ans: False
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]

14. “Book value” refers to the amount at which an account is carried in the company’s accounting records as opposed to “carrying amount” which refers to the amount at which an account is reported in the company’s financial statements.
Ans: False
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
15. Net asset valuation and net income determination are inextricably intertwined.
Ans: True
LO: 2
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
16. A ship building company is likely to recognize revenue at the completion of production.
Ans: False
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
17. While the earnings process is the result of many separate activities, it is generally acknowledged that there is usually one critical event or key stage considered to be absolutely essential to the ultimate increase in net asset value of the firm.
Ans: True
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
18. In order to recognize revenue, it must be possible to measure the amount of revenue that has been earned with a reasonable degree of assurance.
Ans: True
LO: 2
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
19. The two conditions for revenue recognition are occasionally satisfied even before a sale of product occurs.
Ans: True
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
20. The matching principle requires that expenses incurred in generating revenue are recognized in the same period the related revenue is recognized.
Ans: True
LO: 3
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
21. The matching principle says that expenses are matched to the revenue recognized during the period, not that revenue is matched to the period's expenses.
Ans: True
LO: 3
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
22. Costs expensed with the passage of time are called period costs.
Ans: True
LO: 4
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
23. Traceable costs are also called period costs.
Ans: False

LO: 4
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
24. Period costs would include costs like advertising or insurance where the linkage between these costs and individual sales is difficult to establish.
Ans: True
LO: 4
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
25. The process of reporting transitory income items net of tax on the income statement is known as intraperiod income tax allocation.
Ans: True
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
26. Traditional financial reporting presents forecasted cash flow information.
Ans: False
LO: 5
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
27. Financial reporting assists statement users in forecasting future cash flows by providing an income statement format that segregates components of net income.
Ans: True
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]

28. Income statements prepared in accordance with GAAP differentiate between income components that are believed to be sustainable and those that are transitory.
Ans: True
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
29. The income statement isolates a key figure called "income from sustainable operations."
Ans: False
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
30. Transitory items are disclosed separately on the income statement so that statement users can place less weight on these earnings components when forecasting future profitability.
Ans: True
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
31. To be reported as an extraordinary item on the income statement, an event must be either unusual in nature or an infrequent occurrence.
Ans: False
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
32. If a material event is either unusual in nature or an infrequent occurrence it is classified on the income statement as a special or unusual item in continuing operations.
Ans: True
LO: 6
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
33. Firms that use early debt retirement on a recurring basis as part of their ongoing risk management practices will report the associated gains and losses as part of income from continuing operations with separate line-item disclosure.
Ans: True
LO: 6
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
34. If a material event is either unusual in nature or an infrequent occurrence—such as a one-time charge resulting from a major restructuring—it may be classified on the income statement as a special or unusual item in continuing operations or treated as an extraordinary item if it has been a number of years since the company's last major restructuring.
Ans: False
Feedback: Such items **must** be classified on the income statement as a special or unusual item in continuing operations.
LO: 6
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
35. The write-off of obsolete inventory would be reported on the income statement as a special item in continuing operations.
Ans: True
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
36. Gains or losses from the sale of property, plant or equipment would be reported on the income statement as a special item in continuing operations.
Ans: True
LO: 6
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
37. By definition, discontinued operations will not generate future cash flows thus transactions related to operations the firm intends to discontinue, or has already discontinued, must be reported separately from other income items on the income statement.
Ans: True
LO: 6
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
38. If a component of an entity is classified as "held for sale," its results of operations are to be reported as discontinued operations.
Ans: True
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
39. A component of an entity may be a reportable segment or operating segment, a reporting unit, a subsidiary, or an asset group. An asset group represents the highest level for which identifiable cash flows are largely independent of the cash flows of other components of the entity.
Ans: False
Feedback: As asset group represents the **lowest** level for which identifiable cash flows are largely independent.
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
40. The disposal group notion under IFRS rules envisions a larger unit than the component of an entity notion under U.S. GAAP.
Ans: True
LO: 6
Difficulty: Medium

AACSB: Reflective thinking
AICPA BB: Global
Bloom's: Comprehension

[QUESTION]
41. The business environment in which an enterprise operates is of little consideration in determining whether an underlying event or transaction is unusual in nature and infrequent in occurrence.
Ans: False
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
42. Management might, in a "down" earnings year, be tempted to treat nonrecurring gains as part of income from continuing operations and nonrecurring losses as extraordinary.
Ans: True
LO: 6
Difficulty: Hard
AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Comprehension

[QUESTION]
43. When firms use different accounting principles to account for similar accounting events in adjacent periods, the period-to-period consistency of the reported numbers can be compromised.
Ans: True
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
44. Changes in accounting principle and changes in the reporting entity are reported under the retrospective approach.
Ans: True
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
45. Changes in accounting principle and changes in accounting estimate are reported under the prospective approach.
Ans: False
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
46. The advantage of the retrospective approach to accounting for changes in accounting principle is that the financial statements in the year of the change and for prior years presented for comparative purposes are prepared on the same basis of accounting.
Ans: True
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
47. An entry to record a change in accounting principle will typically require an adjustment to the firm’s retained earnings balance to reflect the cumulative effect of the change in accounting principle on all prior periods’ reported net income.
Ans: True
LO: 7
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Comprehension

[QUESTION]
48. When accounting estimates are changed, the income effect of the changed estimate is accounted for in the period of the change and in future periods if the change affects both.
Ans: True
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
49. GAAP states that if it is impractical to determine the cumulative effect of applying a change in accounting principle to prior periods—such as when a firm adopts the LIFO

inventory accounting method—the new accounting principle is to be applied as if the change was made prospectively as of the earliest date practicable.
Ans: True
LO: 7
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
50. Changes in accounting principle arise only when there are changes mandated by a standards-setting body such as the FASB.
Ans: False
LO: 7
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
51. When a company acquires another company, the merger gives rise to a type of accounting change.
Ans: True
LO: 7
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
52. Basic earnings per share (EPS) is always computed by dividing net income by the weighted average number of common shares of stock outstanding.
Ans: False
Feedback: If there are preferred stock dividends, the numerator would be net income minus preferred stock dividends.
LO: 8
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
53. While basic earnings per share (EPS) must be disclosed, management may opt to place it in the notes to the financial statements.
Ans: False
LO: 8

Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
54. Diluted earnings per share reflects the EPS that would result if all potentially dilutive securities were converted into shares of common stock.
Ans: True
LO: 8
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
55. Diluted earnings per share is a required disclosure for all corporations that have outstanding preferred stock.
Ans: False
LO: 8
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
56. Each set of EPS numbers includes separately reported numbers for income from continuing operations and the items that appear below it on the income statement.
Ans: True
LO: 8
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
57. The change in equity of an entity during a period from transactions and other events from non-owner sources is known as comprehensive income.
Ans: True
LO: 9
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]

58. Selected unrealized gains (or losses) sometimes bypass the income statement and are reported as direct adjustments to a stockholders' equity account.
Ans: True
LO: 9
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
59. The basic accounting equation may be expressed as assets = liabilities – owners' equity.
Ans: False
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
60. Debit means increase.
Ans: False
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
61. A contra account is an account that is subtracted from a related account.
Ans: True
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
62. Revenue increases owners' equity and expenses decrease owners' equity.
Ans: True
LO: 11
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
63. To get revenue and expense account balances to zero an adjusting entry is made.
Ans: False
LO: 11
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
64. For each transaction, the dollar total of the debits must equal the dollar total of the credits.
Ans: True
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
65. An adjusting entry is required whenever all economic events that have occurred are not already reflected in the accounts.
Ans: True
LO: 11
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
66. Adjusting entries always fall into one of two categories: adjustments for prepayments or adjustments for unearned revenue.
Ans: False
LO: 11
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
67. One difference between U.S. GAAP and IFRS is that IFRS requires companies to present a single statement of comprehensive income while U.S. GAAP allows companies to alternatively present separately a net income statement and a statement of comprehensive income.
Ans: False
LO: 10

Difficulty: Medium
AACSB: Reflective thinking
AICPA BB: Global
Bloom's: Knowledge

[QUESTION]
68. U. S. GAAP permits companies to report components of other comprehensive income (OCI) as part of the statement of changes in stockholders' equity.
Ans: False
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
69. As a general rule, IFRS allows more opportunities for managers to change balance sheet valuations of certain assets even when management has no intention to sell these assets.
Ans: True
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA BB: Global
Bloom's: Knowledge

[QUESTION]
70. The shareholders' equity account, Revaluation Surplus, is likely to be found on the balance sheet of a company reporting under U.S. GAAP.
Ans: False
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
71. Both IFRS and U.S. GAAP require companies to report valuation changes to the company's expected liability to its retired employees due to changes in actuarial estimates in other comprehensive income each period.
Ans: True
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA BB: Global
Bloom's: Knowledge

[QUESTION]
72. U.S. GAAP requires some firms to periodically recategorize a portion of actuarial adjustment losses relating to pensions into periodic net income .
Ans: True
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
73. Under IFRS if a company opts to present separately a net income statement and a statement of comprehensive income, the net income statement must immediately follow the statement of comprehensive income.
Ans: False
LO: 10
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

Multiple Choice

[QUESTION]
74. Which of the following statements **best** describes expenses?
a. They are recorded in the accounting period when they are "earned" and become "measurable."
b. They consist of amounts paid for consumable items and services rendered to the organization during the accounting period.
c. They are the expired costs or assets "used up" during the accounting period.
d. They consist of cash payments to employees during the period for services rendered.
Ans: c
LO: 1 LO: 3
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

REFERENCE: Ref. 02_01
The Canon Corporation sells ten copiers to the Title Company on October 15 for $40,000. Canon delivers the copiers to Title on October 20; Title pays $16,000, and agrees to pay the balance on November 10.

[QUESTION]
REFER TO: Ref. 02_01
75. Under the cash basis, how much revenue should Canon recognize in October?
a. $0
b. $16,000
c. $24,000
d. $40,000
Ans: b
LO: 1
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
REFER TO: Ref. 02_01
76. Under the accrual basis, how much revenue should Canon recognize in November?
a. $0
b. $16,000
c. $24,000
d. $40,000
Ans: a
LO: 1
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
REFER TO: Ref. 02_01
77. Using the accrual basis, which one of the following entries would properly record Canon's revenue recognition for October?

a.	**DR** Cash	40,000	
	CR Copier sales		40,000
b.	**DR** Cash	16,000	
	CR Copier sales		16,000
c.	**DR** Cash	16,000	
	DR Accounts receivable	24,000	
	CR Copier sales		40,000
d.	**DR** Accounts receivable	40,000	
	CR Copier sales.		40,000

Ans: c
LO: 1
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement

Bloom's: Application

REFERENCE: Ref. 02_02
Hickory Furniture Company had the following costs paid during the month of May:

Inventory purchases	$40,000
Advertising costs	8,000
Delivery costs	2,000

Hickory sold $32,000 of the inventory and has agreed to pay warranty expenses for its customers. These are expected to be $1,600 and occur evenly over the next four months (i.e., starting in June).

[QUESTION]
REFER TO: Ref. 02_02
78. What is the amount of Hickory's cash-basis expenses for the month of May?
a. $33,600
b. $42,400
c. $50,000
d. $51,600
Ans: c
Feedback: Cash expenses = Inventory purchases $40,000, Advertising $8,000, Delivery Costs $2,000
LO: 1
Difficulty: Easy
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
REFERENCE: Ref. 02_02
79. What is the amount of Hickory's May expenses when applying the matching principle?
a. $33,600
b. $42,400
c. $43,600
d. $50,000
Ans: c
Feedback: Accrual expenses = Cost of Goods Sold $32,000, Advertising $8,000, Delivery Costs $2,000, and Warranty Costs $1,600
LO: 1
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
REFERENCE: Ref. 02_02

80. What type of cost is the advertising expense?
a. Product cost
b. Traceable cost
c. Inventory cost
d. Period cost
Ans: d
LO: 4
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
81. Revenue is earned when
a. a contract is signed by both parties.
b. the seller substantially completes performance required by an agreement.
c. the buyer completes payment required under an agreement.
d. the buyer accepts delivery and completes required payments.
Ans: b
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
82. Net income recognition always increases
a. assets.
b. net assets.
c. liabilities.
d. net liabilities.
Ans: b
Feedback: Net income recognition can occur by reducing Unearned Revenue and increasing Service Revenue. In this case, there is no change in assets, but net assets have increased.
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
83. The real accounting issue in net income recognition is the
a. quantity of income recognized.
b. type of income recognized.
c. timing of the recognition.

d. basis of net income recognition.
Ans: c
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
84. According to generally accepted accounting principles, revenue should be recognized at the earliest time when
a. the "critical event" has taken place and the proceeds are collected.
b. the "critical event" has taken place and the amount of revenue collected is reasonably assured.
c. collection is reasonably assured and the "critical event" can be measured.
d. collection has taken place and the "critical event" can be measured.
Ans: b
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
85. The "critical event" for revenue recognition is
a. defined by generally accepted accounting principles for every situation.
b. the same for every industry.
c. dependent upon the exact nature of the business and industry.
d. easily defined by the FASB.
Ans: c
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
86. To recognize revenue during the production phase, a specific customer must be identified, an exchange price agreed upon, remaining costs to complete are reliably estimated, a significant portion of the services contracted are performed, and
a. a reasonable estimate of cash collection determined.
b. the seller has the right to terminate the exchange.
c. a firm delivery date established.
d. the product is immediately salable at quoted market prices.
Ans: a
LO: 2

Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
87. Which one of the following businesses is likely to recognize revenue during the production phase?
a. Mining company
b. Cruise ship builder
c. Citrus grower
d. Department store
Ans: b
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Synthesis

[QUESTION]
88. To recognize revenue upon completion of production, the product must be immediately saleable at quoted market prices, no significant uncertainty exists regarding cost of distributing the product, and
a. the seller has the right to terminate the exchange.
b. the units are homogeneous.
c. a firm delivery date must be established.
d. a specific customer must be identified.
Ans: b
LO: 2
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
89. To recognize revenue after the time of sale, there must be extreme uncertainty regarding the amount of cash to be collected or
a. there must be substantial future services required whose costs cannot be reasonably estimated.
b. units are heterogeneous.
c. the product is immediately salable at quoted market prices.
d. a formal contract must be signed.
Ans: a
LO: 2
Difficulty: Medium
AACSB: Reflective thinking

AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
90. The matching principle requires that expenses be recognized
a. in the same period in which all the assets are used up.
b. in the same period in which the revenue generated by these expenses is recognized.
c. when the costs are paid by the entity.
d. in the same period in which the revenue generated by these expenses is received.
Ans: b
LO: 3
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
91. Traceable costs are also called
a. period costs.
b. expired costs.
c. product costs.
d. administrative costs.
Ans: c
LO: 4
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
92. The statement, "linkage between these costs and individual sales is difficult to establish," refers to
a. period costs.
b. expired costs.
c. product costs.
d. traceable costs.
Ans: a
LO: 4
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
93. Income statements are classified into sections to
a. separate earned income from unearned income.

b. distinguish between sustainable and transitory income.
c. separate real income from book income.
d. distinguish between book income and taxable income.
Ans: b
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
94. The rationale behind the rules for multiple-step income statements is to subdivide the income in a manner that facilitates
a. cash flows.
b. forecasting.
c. tax return preparation.
d. audits.
Ans: b
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
95. The best measure of a firm's sustainable income is
a. income from continuing operations.
b. income before extraordinary items.
c. income before extraordinary item and change in accounting principle.
d. net income.
Ans: a
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
96. On the income statement, income from discontinued operations is shown
a. as a separate section of income from continuing operations.
b. as an accounting principle change.
c. without any income tax effect.
d. net of taxes after income from continuing operations.
Ans: d
LO: 5
Difficulty: Easy

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
97. When transitory earnings are present, which of the following correctly depicts the order used on the income statement?
a. Income from continuing operations, income tax expense, extraordinary loss, discontinued operations, net income.
b. Income from continuing operations, extraordinary loss, discontinued operations, income tax expense, net income.
c. Income from continuing operations, income tax expense, discontinued operations, extraordinary loss, net income.
d. Income tax expense, income from continuing operations, discontinued operations, extraordinary loss, net income.
Ans: d
LO: 5
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
98. Black & Decker decides to discontinue producing toasters in lieu of more versatile toaster ovens. In the process of discontinuing this line, the company disposes of the old equipment and buys new. The disposal of the old equipment would be reported in the income statement as
a. gain or loss on the sale of equipment as part of continuing operations.
b. gain or loss on the sale of production equipment as part of extraordinary gains and losses.
c. gain or loss on the disposal of discontinued business component.
d. income from operation of a discontinued business component.
Ans: a
LO: 6
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
99. A component of an entity may be a/an
a. reportable or operating segment.
b. subsidiary.
c. asset group.
d. reportable or operating segment, subsidiary, or asset group.
Ans: d

LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
100. The discontinued operations section of the income statement is comprised of which one of the following?
a. Income from the operation of discontinued business component and gain or loss from the disposal of the discontinued component.
b. Income from the operation of discontinued business component, net of tax, and gain or loss from the disposal of the discontinued component, net of tax.
c. Income from the operation of discontinued business component, net of tax and gain or loss from the disposal of the discontinued component.
d. Gain or loss from the disposal of the discontinued component, net of tax.
Ans: b
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
101. To be reported as an extraordinary item on the income statement, an event must be
a. both unusual in nature and an infrequent occurrence.
b. either unusual in nature or an infrequent occurrence.
c. unusual in nature.
d. an infrequent occurrence.
Ans: a
LO: 6
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
102. If a material event is either unusual in nature or an infrequent occurrence it is classified on the income statement as a/an
a. special item in continuing operations.
b. special item in continuing operations shown net of tax.
c. extraordinary item.
d. extraordinary item shown net of tax.
Ans: a
LO: 6
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
103. Which one of the following events would be considered an extraordinary event?
a. A tornado in Kansas.
b. An earthquake in New York.
c. A flood in St. Louis near the Mississippi River.
d. An earthquake in southern California.
Ans: b
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Analysis

[QUESTION]
104. A special one-time charge resulting from corporate restructurings would be reported on the income statement as a/an
a. extraordinary item shown net of tax.
b. special item in continuing operations.
c. special item in continuing operations, shown net of tax.
d. special item in discontinued operations, shown net of tax.
Ans: b
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
105. When reporting a change in an accounting principle, the general rule requires that the current year’s income from continuing operations reflect
a. use of the newly adopted principle for the current year recognition.
b. use of the old principle for the current year recognition.
c. management’s choice of either the old or newly adopted principle for the current year recognition.
d. FASB’s designation of either the old or newly-adopted principle based on the item being changed.
Ans: a
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom’s: Knowledge

[QUESTION]
106. A cumulative effect of a change in an accounting principle is measured as
a. the difference between prior periods' net income under the old method and what would have been reported if the new method had been used in the prior years.
b. the after-tax difference between prior periods' net income under the old method and what would have been reported if the new method had been used in the prior years.
c. the difference between prior periods' net income and current net income under the old method and what would have been reported if the new method had been used in the prior years and the current year.
d. the after-tax difference between prior periods' net income and current net income under the old method and what would have been reported if the new method had been used in the prior years and the current year.
Ans: b
LO: 7
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
107. When using the retrospective approach for a change in accounting principle, disclosure rules require that
a. prior years' income statements presented for comparative purposes be restated to reflect use of the new principle unless it is impractical to do so.
b. all prior years' income statements be restated to reflect use of the new principle, and include a pro forma net income figure of the previously reported income.
c. no prior years' income statements be restated, but a pro forma net income figure be provided to reflect use of the new principle for each year presented.
d. no prior years' income statements be restated, and no pro forma net income figures be provided.
Ans: a
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
108. When a company changes from LIFO to another inventory method, the change is reported
a. prospectively because it is impractical to determine the effects of this change on prior years' net income.
b. as an error correction.
c. as a change in an accounting estimate.
d. using the retrospective approach.

Ans: d
LO: 6
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
109. When a company changes from straight-line depreciation to double-declining-balance depreciation, the change is reported
a. prospectively because it is impractical to determine the effects of this change on prior years' net income.
b. as an error correction.
c. as a change in an accounting estimate.
d. using the retrospective approach.
Ans: c
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
110. When a company changes from any inventory method to LIFO, the change is reported
a. prospectively because it is usually impractical to determine the effects of this change on prior years' net income.
b. as an error correction.
c. as a change in an accounting estimate.
d. using the retrospective approach.
Ans: a
LO: 7
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
111. Royal, Inc. discovered that equipment purchased three years ago for $300,000 will not last as long as originally estimated. The firm was depreciating the equipment at the rate of $40,000 per year with an estimated salvage value of $20,000. New estimates indicate that the equipment will last a <u>total</u> of five years with no salvage value. How much should Royal, Inc. record as depreciation in year four?
a. $40,000
b. $60,000
c. $90,000

d. $120,000
Ans: c
Feedback: $300,000 – ($40,000 × 3) = $180,000 (remaining book value) ÷ 2 (remaining useful life) = $90,000
LO: 7
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
112. GAAP requires that each set of EPS numbers includes separately reported numbers for all of the following **except**
a. special or unusual items.
b. income from continuing operations.
c. discontinued operations.
d. extraordinary items.
Ans: a
LO: 8
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
113. When analysts provide basic EPS for income from continuing operations that exclude the effects of special (i.e., nonrecurring) gains or losses and certain other non-cash charges, such earnings are frequently referred to as
a. normal earnings.
b. pro forma earnings.
c. sustainable earnings.
d. real earnings.
Ans: b
LO: 8
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
114. The change in equity of an entity during a period from transactions and other events from non-owner sources is known as
a. net income.
b. net operating income.
c. comprehensive income.
d. net change in assets.

Ans: c
LO: 9
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
115. Which one of the following is part of other comprehensive income (OCI)?
a. Unrealized gains resulting from translating foreign currency financial statements of majority-owned subsidiaries to U.S. dollar amounts.
b. Gains on sales of treasury stock.
c. Receipt of land donated by a governmental unit.
d. Sale of common stock above par.
Ans: a
LO: 9
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
116. GAAP requires firms to report comprehensive income
a. at the end of the income statement.
b. as a separate statement of comprehensive income.
c. in the statement of changes in stockholders' equity.
d. in a statement that is displayed with the same prominence as other financial statements.
Ans: d
LO: 9
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
117. Current U.S. GAAP permits firms to display the components of other comprehensive income in which of the following formats?
a. as a schedule appearing in the financial statement footnotes.
b. in a two-statement approach, one in which net income comprises one statement and a second, which presents a separate statement of comprehensive income.
c. as part of the statement of changes in stockholders' equity.
d. as a part of the statement of cash flows.
Ans: a
LO: 9
Difficulty: Medium

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
118. The basic accounting equation may be expressed as
a. assets = liabilities – owners' equity
b. liabilities = assets + owners' equity
c. owners' equity = assets – liabilities
d. assets = owners' equity – liabilities
Ans: c
LO: 11
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
119. Any increase in an asset may be offset by
a. a corresponding decrease in a liability.
b. a decrease in some other asset account.
c. a corresponding decrease in owner' equity.
d. an increase in another asset account.
Ans: b
LO: 11
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
120. Which of the following statements is correct regarding revenue and expense accounts?
a. These are really owners' equity accounts.
b. These are really contributed capital accounts.
c. They have no impact on the balance sheet.
d. These are balance sheet accounts.
Ans: a
LO: 11
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]
121. A debit

a. increases Accounts Payable.
b. increases Cost of Goods Sold.
c. decreases Accounts Receivable.
d. decreases Equipment.
Ans: b
LO: 11
Difficulty: Easy
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
122. Adjusting entries must be made
a. to correct errors in the accounts.
b. to reconcile the accounts to the budget.
c. because auditing standards require them.
d. because certain types of events will otherwise not be recorded in the accounts.
Ans: d
LO: 11
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
123. Accumulated depreciation is a/an
a. expense account.
b. liability account.
c. contra-asset account.
d. owners' equity account.
Ans: c
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
124. Entering the **DR** or **CR** amount in the appropriate left or right side of the affected T-account is called
a. posting.
b. cross-referencing.
c. journalizing.
d. recording.
Ans: a
LO: 11

Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
125. Which of the following is a true statement?
a. Revenue decreases owners' equity and increases liabilities.
b. Expenses increase owners' equity and decrease liabilities.
c. Revenue increases owners' equity and expenses decrease owners' equity.
d. Revenue decreases owners' equity and expenses increase owners' equity.
Ans: c
LO: 11
Difficulty: Easy
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
126. To get revenue and expense account balances to zero requires a/an
a. adjusting entry.
b. closing entry.
c. operating entry.
d. reversing entry.
Ans: b
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
127. T-account analysis can be used to gain insights into why accrual basis earnings and cash basis earnings differ and to
a. journalize future transactions.
b. reconstruct transactions that have occurred during a given reporting period.
c. post transactions that have occurred during a given reporting period.
d. determine the current market price of common stock.
Ans: b
LO: 11
Difficulty: Medium
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension

[QUESTION]

128. Working capital accounts include
a. all assets.
b. all assets and liabilities.
c. current assets and all liabilities.
d. current assets and current liabilities.
Ans: d
LO: 11
Difficulty: Easy
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
129. Recent changes in________accounting standards require companies to group items within OCI based on___________:
a. U.S. GAAP; whether they will be reclassified subsequently into net income or whether they will be subsequently reclassified into income when specific conditions are met.
b. IFRS; whether they will be reclassified subsequently into net income or whether they will be subsequently reclassified into income when specific conditions are met.
c. U.S. GAAP; their expected future categorization on the income statement into income from continuing operations, discontinued operations, extraordinary items.
d. IFRS; their expected future categorization on the income statement into income from continuing operations, discontinued operations, extraordinary items.
Ans: b
LO: 10
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

[QUESTION]
130. When actuarial estimates related to defined benefit pension plans are adjusted
a. Both U.S. GAAP and IFRS require companies to report these valuation changes in OCI each period.
b. Only U.S. GAAP requires companies to report these valuation changes in OCI each period.
c. Only IFRS requires companies to report these valuation changes in OCI each period.
d. Neither U.S. GAAP nor IFRS requires companies to report these valuation changes in the financial statements.
Ans: a
LO: 10
Difficulty: Hard
AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge

Essay and Computational Questions

[QUESTION]
131. In its accrual-basis income statement for the year ended December 31, 2014, Ralph Company reported revenue of $2,565,000. Additional information was as follows:

Accounts receivable 12/31/13	$418,500
Uncollectible accounts written off during 2014	17,200
Accounts receivable 12/31/14	391,700

Required:
Under the cash basis of net income determination, how much should Ralph report as revenue for 2014?

Ans:

Accrual basis revenue	$2,565,000
+ Beginning accounts receivable balance	418,500
− Ending accounts receivable balance	(391,700)
− Write-offs of accounts receivable	(17,200)
Cash basis revenue (cash collections on accounts receivable)	**$2,574,600**

Feedback: Under the cash basis of net income determination, the company would not regard its accounts receivable as revenue. To find cash basis revenue, add the decrease in accounts receivable to the revenue figure and subtract the write-offs to determine cash collections on accounts receivable.
LO: 1
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
132. John Hamilton, D.D.S. keeps his accounting records on the cash basis. During 2014 Dr. Hamilton collected $220,000 in fees from his patients. At December 31, 2013 Dr. Hamilton had accounts receivable of $30,000. At December 31, 2014 Dr. Hamilton had accounts receivable of $35,000 and had collected unearned fees of $8,000.

Required:
On the accrual basis, what was Dr. Hamilton's patient service revenue for 2014?

Ans:

Cash basis revenue	$220,000
− Beginning accounts receivable (12/31/13)	(30,000)
+ Ending accounts receivable (12/31/14)	35,000
− Unearned fees on 12/31/14	(8,000)

= Accrual basis revenue	**$217,000**

Feedback: To change Dr. Hamilton's revenue from cash basis to an accrual basis, add the earned but uncollected accounts receivable and subtract the beginning accounts receivable collected in 2014 but earned in 2013. Also subtract fees collected in 2014 but not earned until after 2014 (unearned fees on 12/31/14).
LO: 1
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
133. Under Bart Company's accounting system, all insurance premiums paid are debited to prepaid insurance. For interim reports, Bart makes monthly estimated charges to insurance expense with credits to prepaid insurance. Additional information for the year ended December 31, 2014 is as follows:

Prepaid insurance at December 31, 2013	$310,000
Charges to insurance expense during 2014, including a year-end adjustment of $50,000	975,000
Unexpired insurance premiums at December 31, 2014	265,000

Required:
What was the total amount of insurance premiums paid by Bart during 2014?

Ans:

Charges to insurance expense during 2014	$975,000
− Decrease in prepaid insurance ($310,000 − $265,000)	(45,000)
= Insurance premiums paid in 2014	**$930,000**

Feedback: The total amount of insurance premiums paid in 2014 is equal to the insurance expense for 2014 less the decline in the balance in prepaid insurance.
LO: 1
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
134. Schlegel Department Store sells gift certificates—redeemable for store merchandise—that expire one year after their issuance. Schlegel has the following information pertaining to its gift certificates sales and redemptions:

Unredeemed certificates at 12/31/13	$90,000
2014 sales	400,000
2014 redemptions of prior year sales	60,000
2014 redemptions of current year sales	325,000

Schlegel’s experience indicates that 10% of gift certificates will not be redeemed. The company’s policy is to record revenue on gift certificates when they are redeemed or expire.

Required:
In its 2014 income statement, what amount should Schlegel report as gift certificate revenue?

Ans:

2013 sales redeemed or expired in 2014	$90,000
2014 sales redeemed in 2014	325,000
2014 gift certificate revenue	**$415,000**

Feedback: Any 2013 certificates unredeemed at 1/1/14 will either be redeemed or expire in 2014 and thus should be included in 2014 net income along with the dollar amount of certificates sold and redeemed in 2014.
LO: 2
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom’s: Application

[QUESTION]
135. Lazer Industries, Inc. manufactures medical equipment parts and accessories. Assume all amounts are pre-tax and a 30% tax rate for 2014.

Sales	$1,200,000
Interest expense	$150,000
Returns from customers	$100,000
Rent expense	$450,000
Cost of goods sold	$300,000
Other selling, general and administrative expenses	$170,000
Extraordinary loss	$230,000
Goodwill impairment	$20,000

Required:
Provide a condensed income statement for Lazer Industries, Inc. based on the available information. Include all subtotals needed (appropriately labeled) to present your income statement in good form.

Ans:

Lazer Industries, Inc.
Income Statement
For the year ended December 31, 2014

Sales	$1,200,000
Returns from customers	(100,000)

Net sales	1,100,000
Cost of goods sold	(300,000)
Gross profit	800,000
Rent expense	(450,000)
Other selling, general and administrative expenses	(170,000)
Operating income	180,000
Interest expense	(150,000)
Goodwill impairment	(20,000)
Income before tax	10,000
Income tax expense	(3,000)
Income before extraordinary item	7,000
Extraordinary item (net of tax benefit of $69,000)	(161,000)
Net income (loss)	$ (154,000)

LO: 5
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
136. Berg, Inc. provides exotic wedding planning services. Berg's facilities are located in an elevated area with a dry climate. Assume all amounts are pre-tax and a 30% tax rate for 2014.

Interest expense	$230,000
Rent expense	390,000
Flood damage to facilities	270,000
Revenue	2,100,000
Salaries expense	450,000
Advertising expense	170,000
Restructuring charges	55,000

Required:
Based on the available information, provide a condensed income statement for Berg, Inc. Include all subtotals needed (appropriately labeled) to present your income statement in good form.

Ans:

Berg, Inc.
Income Statement
For the year ended December 31, 2014

Revenue	$2,100,000
Expenses:	
Salaries	(450,000)
Rent	(390,000)
Advertising	(170,000)

Operating income	1,090,000
Interest expense	(230,000)
Restructuring charges	(55,000)
Income before income tax	805,000
Income tax expense	(241,500)
Income before extraordinary item	563,500
Flood damage to facilities (net of tax benefit of $81,000)	(189,000)
Net income	$374,500

Feedback: The flood damage is considered to be extraordinary given the description of the facilities' location.
LO: 5
Difficulty: Medium
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
137. On August 1, 2014, Alpha Co. approved a plan to dispose of an unprofitable segment of its business. Alpha expected that the sale would occur on April 30, 2015, at an estimated gain of $250,000. The segment had actual and estimated operating profits (losses) as follows:

Realized loss from 1/1/14 to 7/31/14	($400,000)
Realized loss from 8/1/14 to 12/31/14	(250,000)
Expected loss from 1/1/15 to 4/30/15	(300,000)

Assume Alpha's tax rate is 30%.

Required:
In its 2014 income statement, what should Alpha report as profit or loss from discontinued operations (net of tax effects)?

Ans:

Realized loss from 1/1/14 to 7/31/14	($400,000)
Realized loss from 8/1/14 to 12/31/14	(250,000)
Total pre-tax loss	(650,000)
Tax benefit at 30%	195,000
Loss from discontinued operations, net of tax effects	**($455,000)**

Feedback: Under GAAP, results of operations on an operating segment or component of an entity classified as held for sale are to be reported in discontinued operations in the periods in which they occur (net of tax effects). None of the expected profit from operating the segment or component of the entity in 2015 or the estimated gain on sale is recognized in 2014. These amounts will be recognized in 2015 as they occur.
LO: 6
Difficulty: Medium
AACSB: Analytic

AICPA FN: Measurement
Bloom's: Application

[QUESTION]
138. On November 15, 2014, Jones Co. sold a segment of its business for $2,750,000. The net book value of the segment at the time of its disposal was $2,900,000. Jones had pretax operating income of $1,750,000 for 2014 which included $360,000 earned by the discontinued segment prior to its disposal. Assume Jones' tax rate is 30%.

Required:
Prepare a partial income statement for Jones Co. for 2014, beginning with pretax income from continuing operations.

Ans:

Income from continuing operations ($1,750,000 − $360,000)	$1,390,000
Income tax expense ($1,390,000 × .30)	417,000
Income from continuing operations	973,000
Discontinued operations:	
Operating income (net of taxes of $108,000) from 1/1/14 through 11/15/14	252,000
Loss on disposal of discontinued operations (net of tax benefit of $45,000)	(105,000)
Net income	**$1,120,000**

Feedback: Sale price of segment − book value of segment = gain (loss) on disposal = $2,750,000 − $2,900,000 = $(150,000) pretax loss.
LO: 6
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
139. Delta Co. began operations on January 1, 2012. During 2012 and 2013, the company used the weighted-average method for its inventory costing. In 2014, the company changed its method of inventory costing to FIFO so that its financial statements would be more comparable to those of other firms in its industry. If the FIFO method had been used, Delta's cost of goods sold would have been $45,000 less in 2012 and $35,000 less in 2013. Delta's income statements, as originally presented, appear below. Delta's tax rate is 30%.

	2012	**2013**	**2014**
Sales	$1,000,000	$1,100,000	$1,210,000
Cost of goods sold	645,000	695,000	726,000
Gross profit	355,000	405,000	484,000
Selling, general and administrative expenses	250,000	255,000	265,000
Depreciation expense	55,000	55,000	55,000
Income before tax	50,000	95,000	164,000

Income tax expense	15,000	28,500	49,200
Net income	$35,000	$66,500	$114,800

Required:
a. Assume that for comparison purposes Delta presents 2012 and 2013 income statements in its 2014 annual report. Revise Delta's 2012 and 2013 income statements to appear as they should in the 2014 annual report.
b. Prepare the journal entry required in 2014 to record Delta's change in accounting principle.

Ans:

a.	**2012**	**2013**	**2014**
Sales	$1,000,000	$1,100,000	$1,210,000
Cost of goods sold	600,000	660,000	726,000
Gross profit	400,000	440,000	484,000
Selling, general and administrative expenses	250,000	255,000	265,000
Depreciation expense	55,000	55,000	55,000
Income before taxes	95,000	130,000	164,000
Income tax expense	28,500	39,000	49,200
Net income	$66,500	$91,000	$114,800

b.	**DR** Inventory	80,000	
	CR Taxes payable		24,000
	CR Retained earnings		56,000

Feedback: Adjustment to inventory = cost of goods sold as originally reported under weighted-average – cost of goods sold under FIFO = ($645,000 + $695,000) − ($600,000 + $660,000) = $80,000. Since pretax income—as restated—is increased by $80,000, taxes on the increase @ 30% = $24,000.
LO: 7
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
140. An analyst gathered the following information about a company whose fiscal year end is December 31.
Net income for the year was $23.7 million.
Preferred stock dividends of $3 million were paid for the year.
Common stock dividends of $6 million were paid for the year.
There were 10 million shares of common stock outstanding on January 1, 2014.
The company issued 6 million new shares of common stock on July 1, 2014.
The capital structure does not include any potentially dilutive securities.

Required:
Calculate the company's basic earnings per share for 2014.

Ans:
Net income – Preferred stock dividend = \$23.7 − \$3 = \$20.7 million.
Weighted Average number of common shares = (0.5 × 10) + (0.5 × 16) = 13 million shares.
EPS = \$20.7 million net income ÷ 13 million shares = \$**1.59 per share**.

LO: 8
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application

[QUESTION]
141. Primo Landscaping commenced its business on January 1, 2014. On December 31, 2014, Primo Landscaping did not record any adjusting entries with respect to the following transactions:

a. During the first year of its operations, Primo purchased supplies in the amount of \$10,000 (debited to "Supplies expense"), and of this amount, \$3,000 were unused as of December 31, 2014.
b. On March 15, 2014 Primo received \$18,000 for landscape maintenance services to be rendered for 24 months (beginning July 1, 2014). This amount was credited to "Landscaping revenue."
c. The company's fuel bill for \$1,500 for the month of December 2014 was not received until January 15, 2015.
d. The company borrowed \$100,000 from First Bank on April 1, 2014 at an interest rate of 12% per year. The principal, along with all of the interest, is due on March 30, 2015.
e. On January 17, 2014 the company purchased a backhoe for \$65,000. The backhoe is expected to last for 10,000 hours and have no salvage value. During 2014, Primo operated the backhoe for 500 hours.

Required:
Complete the table below, showing the effect of the omission of each year-end adjusting entry on assets, liabilities, and net income. Use "OS" for overstated, "US" for understated, and "NE" for no effect.

Item Number	Effect of Omission	Assets	Liabilities	Net Income
a.	Direction of effect Dollar amount of effect			
b.	Direction of effect Dollar amount of effect			
c.	Direction of effect Dollar amount of effect			

d.	Direction of effect Dollar amount of effect			
e.	Direction of effect Dollar amount of effect			

Ans:

Item Number	Effect of Omission	Assets	Liabilities	Net Income
a.	Direction of effect Dollar amount of effect	US $3,000	NE	US $3,000
b.	Direction of effect Dollar amount of effect	NE	US $13,500	OS $13,500
c.	Direction of effect Dollar amount of effect	NE	US $1,500	OS $1,500
d.	Direction of effect Dollar amount of effect	NE	US $9,000	OS $9,000
e.	Direction of effect Dollar amount of effect	OS $3,250	NE	OS $3,250

Feedback: a. Asset not recorded = $3,000 supplies on hand at 12/31/2014. b. Unearned revenue not recorded = $13,500 for services to be rendered from 12/31/2014 to 6/30/2016. c. Fuel expense not recorded = $1,500. d. Interest expense for 9 months not accrued = $100,000 × 0.12 × 9/12 = $9,000. e. Depreciation expense not recorded = $65,000 ÷ 100,000 hours = $6.50/hour depreciation rate × 500 hours used in 2014 = $3,250.
LO: 11
Difficulty: Hard
AACSB: Analytic
AICPA FN: Measurement
Bloom's: Analysis