

Student: _____

1. To measure earnings under accrual accounting, revenues are recognized only when they are received.
True False
2. Recognition of revenue under the cash basis occurs when the revenue is received.
True False
3. Under the cash basis, expenses are recognized when the costs expire or assets are used.
True False
4. Accrual accounting decouples measured earnings from operating cash inflows and outflows.
True False
5. Cash-basis accounting provides the most useful measure of future operating performance.
True False
6. Accrual accounting can produce large discrepancies between the firm's reported profit performance and the amount of cash generated from operations.
True False
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.
True False
8. Reported accrual accounting income for a period always provides an accurate picture of underlying economic performance.
True False
9. Revenues are earned when the seller substantially completes performance required by an agreement.
True False
10. The activities comprising the operating cycle are generally consistent across firms.
True False
11. Since income is earned as a result of complex, multiple-stage processes, the key issue in income determination is the timing of income recognition.
True False
12. According to generally accepted accounting principles, revenue should be recognized at the earliest time that the "critical event" has taken place and the proceeds are collected.
True False
13. GAAP specifies three conditions that must be satisfied in order for revenue to be appropriately recognized.
True False
14. Book value refers to the amount at which an account (or set of related accounts) is carried in the company's records as opposed to the amount reported in the company's financial statements.
True False
15. Net asset valuation and income determination are inextricably intertwined.
True False
16. A ship building company is likely to recognize revenue at the completion of production.
True False

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.
True False
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.
True False
19. The two conditions for revenue recognition are occasionally satisfied even before a sale of product occurs.
True False
20. The matching principle requires that expenses incurred in generating revenue are recognized in the same period the related revenue is recognized.
True False
21. The matching principle says that expenses are matched to the revenue recognized during the period, not that revenues are matched to the period's expenses.
True False
22. Costs matched with the passage of time are called period costs.
True False
23. Traceable costs are also called period costs.
True False
24. Period costs would include costs like advertising or insurance where the linkage between these costs and individual sales is difficult to establish.
True False
25. The process of reporting transitory income items net of tax on the income statement is known as intraperiod income tax allocation.
True False
26. Traditional financial reporting presents forecasted cash flow information.
True False
27. Financial reporting assists statement users to forecast future cash flows by providing an income statement format that segregates components of income.
True False
28. Income statements prepared in accordance with GAAP differentiate between income components that are believed to be sustainable and those that are transitory.
True False
29. The income statement isolates a key figure called "income from sustainable operations."
True False
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.
True False
31. To be reported as an extraordinary item on the income statement, an event must be either unusual in nature or an infrequent occurrence.
True False
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.
True False

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.
True False
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.
True False
35. The write-off of obsolete inventory would be reported on the income statement as a special item in continuing operations.
True False
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.
True False
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.
True False
38. If a component of an entity is classified as "held for sale," its results of operations are to be reported as discontinued operations.
True False
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.
True False
40. The disposal group notion under IFRS rules envisions a larger unit than the component of an entity notion under U.S. GAAP.
True False
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.
True False
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.
True False
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.
True False
44. Changes in accounting principles and changes in the reporting entity are reported under the retrospective approach.
True False
45. Changes in accounting principles and changes in the reporting entity are reported under the prospective approach.
True False

46. The advantage of the retrospective approach to accounting 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.
True False
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.
True False
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.
True False
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.
True False
50. 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 FIFO inventory accounting method—the new accounting principle is to be applied as if the change was made prospectively as of the earliest date practicable.
True False
51. When a company acquires another company, the merger gives rise to a type of accounting change.
True False
52. Basic earnings per share (EPS) is always computed by dividing net income by the weighted average number of common shares of stock outstanding.
True False
53. While basic earnings per share (EPS) must be disclosed, management may opt to place it in the notes to the financial statements.
True False
54. Diluted earnings per share reflects the EPS that would result if all potentially dilutive securities were converted into shares of common stock.
True False
55. Diluted earnings per share is a required disclosure for all corporations that have outstanding preferred stock.
True False
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.
True False
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.
True False
58. Selected unrealized gains (or losses) sometimes bypass the income statement and are reported as direct adjustments to a stockholders' equity account.
True False
59. The basic accounting equation may be expressed as $\text{assets} = \text{liabilities} - \text{owners' equity}$.
True False

60. Debit means increase.
True False
61. A contra account is an account that is subtracted from a related account.
True False
62. Revenues increase owners' equity and expenses decrease owners' equity.
True False
63. To get revenue and expense account balances to zero an adjusting entry is made.
True False
64. For each transaction, the dollar total of the debits must equal the dollar total of the credits.
True False
65. An adjusting entry is required whenever all economic events that have occurred are not already reflected in the accounts.
True False
66. Adjusting entries always fall into one of two categories: adjustments for prepayments or adjustments for unearned revenues.
True False
67. The FASB and IASB are working on a proposed new statement of comprehensive income and have tentatively decided to retain the current formatting options.
True False
68. The goal of the FASB's proposed changes for the Statement of Comprehensive Income is to enhance the predictive ability and decision usefulness of accounting data for present and potential investors and creditors.
True False
69. The *cohesiveness principle* set forth in the FASB's exposure draft on financial statement presentation means that firms should present information in their financial statements so that the relationship between items across financial statements is clear and that the statements complement or articulate with each other as much as possible.
True False
70. The *disaggregation principle* set forth in the FASB's exposure draft on financial statement presentation requires entities to disaggregate accounting data displayed in financial statements only by function.
True False
71. The goal of the FASB's proposed changes in financial statement presentation is the same as that of present financial reporting, namely to assist statement users in predicting the amount, timing and uncertainty of future cash flows.
True False
72. Under the FASB's exposure draft on financial statement presentation, financing costs arising from on-going operating activities are presented in the "business section" of the Statement of Comprehensive Income.
True False
73. Under the FASB's exposure draft on financial statement presentation, the discontinued operations section of the Statement of Comprehensive Income (SCI) modifies existing requirements by reporting gains and losses from a component of an entity that is being discontinued as a category within the business section of the SCI.
True False

74. Expenses

- A. are recorded in the accounting period when they are "earned" and become "measurable."
- B. consist of amounts paid for consumable items and services rendered to the organization during the accounting period.
- C. are the expired costs or assets "used up" during the accounting period.
- D. would include cash payments to employees during the period for services rendered.

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.

75. Under the cash basis, how much revenue should Canon recognize in October?

- A. \$0
- B. \$16,000
- C. \$24,000
- D. \$40,000

76. Under the accrual basis, how much revenue should Canon recognize in November?

- A. \$0
- B. \$16,000
- C. \$24,000
- D. \$40,000

77. Using the accrual basis, which one of the following entries would properly record Canon's revenue

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

recognition for October?

- A. Option a
- B. Option b
- C. Option c
- D. Option d

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).

78. What is the amount of Hickory's cash-basis expense for the month of May?

- A. \$33,600
- B. \$42,400
- C. \$50,000
- D. \$51,600

79. What is the amount of Hickory's May expense when applying the matching principle?

- A. \$33,600
- B. \$42,400
- C. \$43,600
- D. \$50,000

80. What type of cost is the advertising expense?
- A. Product cost
 - B. Traceable cost
 - C. Inventory cost
 - D. Period cost
81. Revenues are 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.
82. Income recognition always increases
- A. assets.
 - B. net assets.
 - C. liabilities.
 - D. net liabilities.
83. The real accounting issue in income recognition is the
- A. quantity of income recognized.
 - B. type of income recognized.
 - C. timing of the recognition.
 - D. basis of income recognition.
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.
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.
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.
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
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.

89. To recognize revenue after the time of sale, there must be extreme uncertainty regarding the amount of cash to be collected or
- there must be substantial future services required whose costs cannot be reasonably estimated.
 - units are heterogeneous.
 - the product is immediately salable at quoted market prices.
 - a formal contract must be signed.
90. The matching principle requires that expenses be recognized
- in the same period in which all the assets are used up.
 - in the same period in which the revenue generated by these expenses is recognized.
 - when the costs are paid by the entity.
 - in the same period in which the revenue generated by these expenses is received.
91. Traceable costs are also called
- period costs.
 - expired costs.
 - product costs.
 - administrative costs.
92. The statement, "linkage between these costs and individual sales is difficult to establish," refers to
- period costs.
 - expired costs.
 - product costs.
 - traceable costs.
93. Income statements are classified into sections to
- separate earned income from unearned income.
 - distinguish between sustainable and transitory income.
 - separate real income from book income.
 - distinguish between book income and taxable income.
94. The rationale behind the rules for multiple-step income statements is to subdivide the income in a manner that facilitates
- cash flows.
 - forecasting.
 - tax return preparation.
 - audits.
95. The best measure of a firm's sustainable income is
- income from continuing operations.
 - income before extraordinary items.
 - income before extraordinary item and change in accounting principle.
 - net income.
96. On the income statement, income from discontinued operations is shown
- as a separate section of income from continuing operations.
 - as an accounting principle change.
 - without any income tax effect.
 - net of taxes after income from continuing operations.
97. Transitory earnings components fall into all of the following categories **except**
- special or unusual items.
 - discontinued operations.
 - extraordinary items.
 - cumulative effect of accounting changes.

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
- gain or loss on the sale of equipment as part of continuing operations.
 - gain or loss on the sale of production equipment as part of extraordinary gains and losses.
 - gain or loss on the disposal of discontinued business component.
 - income from operation of a discontinued business component.
99. A component of an entity may be a/an
- reportable or operating segment.
 - subsidiary.
 - asset group.
 - reportable or operating segment, subsidiary, or asset group.
100. The discontinued operations section of the income statement is comprised of which one of the following?
- Income from the operation of discontinued business component and gain or loss from the disposal of the discontinued component.
 - 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.
 - Income from the operation of discontinued business component, net of tax and gain or loss from the disposal of the discontinued component.
 - Gain or loss from the disposal of the discontinued component, net of tax.
101. To be reported as an extraordinary item on the income statement, an event must be
- both unusual in nature and an infrequent occurrence.
 - either unusual in nature or an infrequent occurrence.
 - unusual in nature.
 - an infrequent occurrence.
102. If a material event is either unusual in nature or an infrequent occurrence it is classified on the income statement as a/an
- special item in continuing operations.
 - special item in continuing operations shown net of tax.
 - extraordinary item.
 - extraordinary item shown net of tax.
103. Which one of the following events would be considered an extraordinary event?
- A tornado in Kansas.
 - An earthquake in New York.
 - A flood in St. Louis near the Mississippi River.
 - An earthquake in southern California.
104. A special one-time charge resulting from corporate restructurings would be reported on the income statement as a/an
- extraordinary item shown net of tax.
 - special item in continuing operations.
 - special item in continuing operations, shown net of tax.
 - special item in discontinued operations, shown net of tax.
105. When reporting a change in an accounting principle, the general rule requires that the current year's income from continuing operations reflect
- use of the newly adopted principle for the current year recognition.
 - use of the old principle for the current year recognition.
 - management's choice of either the old or newly adopted principle for the current year recognition.
 - FASB's designation of either the old or newly-adopted principle based on the item being changed.

106. A cumulative effect of a change in an accounting principle is measured as
- A the difference between prior periods' 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' 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' income and current 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' income and current 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.
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 income figure of the previously reported income.
 - C no prior years' income statements be restated, but a pro forma 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 income figures be provided.
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' income.
 - B. as an error correction.
 - C. as a change in an accounting estimate.
 - D. using the retrospective approach.
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' income.
 - B. as an error correction.
 - C. as a change in an accounting estimate.
 - D. using the retrospective approach.
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' income.
 - B. as an error correction.
 - C. as a change in an accounting estimate.
 - D. using the retrospective approach.
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 total 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
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.

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.
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.
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.
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.
117. Current U.S. GAAP permits firms to display the components of other comprehensive income in all of the following formats **except**
- 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 single statement, one in which net income and other comprehensive income are added together.
118. The basic accounting equation may be expressed as
- A. $\text{assets} = \text{liabilities} - \text{owners' equity}$
 - B. $\text{liabilities} = \text{assets} + \text{owners' equity}$
 - C. $\text{owners' equity} = \text{assets} - \text{liabilities}$
 - D. $\text{assets} = \text{owners' equity} - \text{liabilities}$
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.
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.
121. A debit
- A. increases Accounts Payable.
 - B. increases Cost of Goods Sold.
 - C. decreases Accounts Receivable.
 - D. decreases Equipment.

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.
123. Accumulated depreciation is a/an
- A. expense account.
 - B. liability account.
 - C. contra-asset account.
 - D. owners' equity account.
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.
125. Which of the following is a true statement?
- A. Revenues decrease owners' equity and increase liabilities.
 - B. Expenses increase owners' equity and decrease liabilities.
 - C. Revenues increase owners' equity and expenses decrease owners' equity.
 - D. Revenues decrease owners' equity and expenses increase owners' equity.
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.
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.
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.
129. The FASB's exposure draft on financial statement presentation sets forth these two presentation principles:
- A. cohesiveness and nature.
 - B. disaggregation and measurement.
 - C. cohesiveness and disaggregation.
 - D. function and nature.
130. Under the FASB's proposed Statement of Comprehensive Income, the *investing activities category* within the business section reflects
- A. those activities not related to the central purpose for which the entity is in business.
 - B. the effects of a single acquisition or disposal transaction that recognizes or derecognizes assets or liabilities that are classified in more than one section or category on the statement of financial position.
 - C. the revenues and expenses related to the central purpose(s) for which an entity is in business.
 - D. the effects of transactions with customers, suppliers and employees.

131. In its accrual-basis income statement for the year ended December 31, 2011, Ralph Company reported revenue of \$2,565,000. Additional information was as

Accounts receivable 12/31/10	\$418,500
Uncollectible accounts written off during 2011	17,200
Accounts receivable 12/31/11	391,700

follows:

Required:

Under the cash basis of income determination, how much should Ralph report as revenue for 2011?

132. John Hamilton, D.D.S. keeps his accounting records on the cash basis. During 2011 Dr. Hamilton collected \$220,000 in fees from his patients. At December 31, 2010 Dr. Hamilton had accounts receivable of \$30,000. At December 31, 2011 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 2011?

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, 2011 is as

Prepaid insurance at December 31, 2010	\$310,000
Charges to insurance expense during 2011, including a year-end adjustment of \$50,000	975,000
Unexpired insurance premiums at December 31, 2011	265,000

follows:

Required:

What was the total amount of insurance premiums paid by Bart during 2011?

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

	Unredeemed certificates at 12/31/10	\$90,000
	2011 sales	400,000
	2011 redemptions of prior year sales	60,000
redemptions:	2011 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 2011 income statement, what amount should Schlegel report as gift certificate revenue?

135. Lazer Industries, Inc. manufactures medical equipment parts and accessories. Assume all amounts are

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

pre-tax and a 30% tax rate for 2011.

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.

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

	Interest expense	\$230,000
	Rent expense	390,000
	Flood damage to facilities	270,000
	Revenues	2,100,000
	Salaries expense	450,000
	Advertising expense	170,000
2011.	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.

137. On August 1, 2011, Alpha Co. approved a plan to dispose of an unprofitable segment of its business. Alpha expected that the sale would occur on April 30, 2012, at an estimated gain of \$250,000. The segment had actual and estimated operating profits (losses) as

Realized loss from 1/1/11 to 7/31/11	(\$400,000)
Realized loss from 8/1/11 to 12/31/11	(250,000)
Expected loss from 1/1/12 to 4/30/12	(300,000)

follows: Assume Alpha's tax rate is 30%.

Assume Alpha's tax rate is 30%.

Required:

In its 2011 income statement, what should Alpha report as profit or loss from discontinued operations (net of tax effects)?

138. On November 15, 2011, 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 2011 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 2011, beginning with pretax income from continuing operations.

139. Delta Co. began operations on January 1, 2009. During 2009 and 2010, the company used the sum-of-the-years-digits method of depreciation for its operating equipment (which cost \$550,000 and had an estimated life of ten years with no salvage value). The company has no other depreciable assets. In 2011, the company changed its method of depreciation to the straight-line method so that its financial statement would be more comparable to those of other firms in its industry. Delta's income statements, as originally presented, appear below. Delta's tax rate is 30%.

	2009	2010	2011
Sales	\$1,000,000	\$1,100,000	\$1,210,000
Cost of goods sold	<u>600,000</u>	<u>660,000</u>	<u>726,000</u>
Gross profit	400,000	440,000	484,000
Selling, general and administrative expenses	250,000	255,000	265,000
Depreciation expense	<u>100,000</u>	<u>90,000</u>	<u>55,000</u>
Income before tax	50,000	95,000	164,000
Income tax expense	<u>15,000</u>	<u>28,500</u>	<u>49,200</u>
Net income	<u>\$35,000</u>	<u>\$66,500</u>	<u>\$114,800</u>

Required:

- a. Assume that for comparison purposes Delta presents 2009 and 2010 income statements in its 2011 annual report. Revise Delta's 2009 and 2010 income statements to appear as they should in the 2011 annual report.
- b. Prepare the journal entry required in 2011 to record Delta's change in accounting principle.

140. An analyst gathered the following information about a company whose fiscal year end is December

- 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, 2011.
- The company issued 6 million new shares of common stock on July 1, 2011.
- The capital structure does not include any potentially dilutive securities.

31.

Required:

Calculate the company's basic earnings per share for 2011.

141. Primo Landscaping commenced its business on January 1, 2011. On December 31, 2011, Primo Landscaping did not record any adjusting entries with respect to the following

- 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, 2011.
- b. On March 15, 2011 Primo received \$18,000 for landscape maintenance services to be rendered for 24 months (beginning July 1, 2011). This amount was credited to "Landscaping revenue."
- c. The company's fuel bill for \$1,500 for the month of December 2011 was not received until January 15, 2012.
- d. The company had borrowed \$100,000 from First Bank on April 1, 2011 at an interest rate of 12% per year. The principal, along with all of the interest, is due on March 30, 2012.
- e. On January 17, 2011 the company purchased a backhoe for \$65,000. The backhoe is expected to last for 10,000 hours and have no salvage value. During 2011, Primo operated the backhoe for 500 hours.

transactions:

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

<u>Item Number</u>	<u>Effect of Omission</u>	<u>Assets</u>	<u>Liabilities</u>	<u>Net Income</u>
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			

effect.

02 Key

1. To measure earnings under accrual accounting, revenues are recognized only when they are received.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Revsine - Chapter 02 #1

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

2. Recognition of revenue under the cash basis occurs when the revenue is received.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Revsine - Chapter 02 #2

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

3. Under the cash basis, expenses are recognized when the costs expire or assets are used.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Revsine - Chapter 02 #3

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

4. Accrual accounting decouples measured earnings from operating cash inflows and outflows.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #4

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

5. Cash-basis accounting provides the most useful measure of future operating performance.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #5

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

6. Accrual accounting can produce large discrepancies between the firm's reported profit performance and the amount of cash generated from operations.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #6

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #7

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

8. Reported accrual accounting income for a period always provides an accurate picture of underlying economic performance.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #8

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

9. Revenues are earned when the seller substantially completes performance required by an agreement.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #9

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

10. The activities comprising the operating cycle are generally consistent across firms.

FALSE

AACSB: Reflective thinking
AICPA BB: Critical Thinking
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #10

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

11. Since income is earned as a result of complex, multiple-stage processes, the key issue in income determination is the timing of income recognition.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #11

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

12. According to generally accepted accounting principles, revenue should be recognized at the earliest time that the "critical event" has taken place and the proceeds are collected.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #12

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

13. GAAP specifies three conditions that must be satisfied in order for revenue to be appropriately recognized.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #13

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

14. Book value refers to the amount at which an account (or set of related accounts) is carried in the company's records as opposed to the amount reported in the company's financial statements.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #14

15. Net asset valuation and income determination are inextricably intertwined.

TRUE

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #15

16. A ship building company is likely to recognize revenue at the completion of production.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #16

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #17

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #18

19. The two conditions for revenue recognition are occasionally satisfied even before a sale of product occurs.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #19

20. The matching principle requires that expenses incurred in generating revenue are recognized in the same period the related revenue is recognized.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-03 The matching principle and how it is applied to recognize expenses under accrual accounting.
Revsine - Chapter 02 #20

21. The matching principle says that expenses are matched to the revenue recognized during the period, not that revenues are matched to the period's expenses.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-03 The matching principle and how it is applied to recognize expenses under accrual accounting.
Revsine - Chapter 02 #21

22. Costs matched with the passage of time are called period costs.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 02-04 The difference between product and period costs.
Revsine - Chapter 02 #22

23. Traceable costs are also called period costs.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 02-04 The difference between product and period costs.
Revsine - Chapter 02 #23

24. Period costs would include costs like advertising or insurance where the linkage between these costs and individual sales is difficult to establish.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-04 The difference between product and period costs.
Revsine - Chapter 02 #24

25. The process of reporting transitory income items net of tax on the income statement is known as intraperiod income tax allocation.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.
Revsine - Chapter 02 #25

26. Traditional financial reporting presents forecasted cash flow information.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.
Revsine - Chapter 02 #26

27. Financial reporting assists statement users to forecast future cash flows by providing an income statement format that segregates components of income.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.
Revsine - Chapter 02 #27

28. Income statements prepared in accordance with GAAP differentiate between income components that are believed to be sustainable and those that are transitory.

TRUE

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

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

Revsine - Chapter 02 #28

29. The income statement isolates a key figure called "income from sustainable operations."

FALSE

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

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

Revsine - Chapter 02 #29

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.

TRUE

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

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

Revsine - Chapter 02 #30

31. To be reported as an extraordinary item on the income statement, an event must be either unusual in nature or an infrequent occurrence.

FALSE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

Revsine - Chapter 02 #31

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.

TRUE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

Revsine - Chapter 02 #32

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Hard

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

Revsine - Chapter 02 #33

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.

FALSE

Such items **must** be classified on the income statement as a special or unusual item in continuing operations.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Hard

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #34

35. The write-off of obsolete inventory would be reported on the income statement as a special item in continuing operations.

TRUE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #35

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.

TRUE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #36

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.

TRUE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #37

38. If a component of an entity is classified as "held for sale," its results of operations are to be reported as discontinued operations.

TRUE

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #38

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.

FALSE

As asset group represents the **lowest** level for which identifiable cash flows are largely independent.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #39

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

40. The disposal group notion under IFRS rules envisions a larger unit than the component of an entity notion under U.S. GAAP.

TRUE

AACSB: Diversity
AICPA BB: Global
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #40

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

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.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #41

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

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.

TRUE

AACSB: Analytic
AICPA BB: Critical Thinking
Bloom's: Comprehension
Difficulty: Hard
Revsine - Chapter 02 #42

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

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.

TRUE

Consistency is compromised.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #43

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.

44. Changes in accounting principles and changes in the reporting entity are reported under the retrospective approach.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #44

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.

45. Changes in accounting principles and changes in the reporting entity are reported under the prospective approach.

FALSE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #45

46. The advantage of the retrospective approach to accounting 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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #46

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Difficult
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #47

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #48

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.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #49

50. 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 FIFO inventory accounting method—the new accounting principle is to be applied as if the change was made prospectively as of the earliest date practicable.

FALSE

Determining the cumulative effect of applying a change in accounting principle to prior periods is impracticable when a firm adopts the LIFO inventory accounting method.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #50

51. When a company acquires another company, the merger gives rise to a type of accounting change.

TRUE

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.

Revsine - Chapter 02 #51

52. Basic earnings per share (EPS) is always computed by dividing net income by the weighted average number of common shares of stock outstanding.

FALSE

If there are preferred stock dividends, the numerator would be net income minus preferred stock dividends.

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.

Revsine - Chapter 02 #52

53. While basic earnings per share (EPS) must be disclosed, management may opt to place it in the notes to the financial statements.

FALSE

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.

Revsine - Chapter 02 #53

54. Diluted earnings per share reflects the EPS that would result if all potentially dilutive securities were converted into shares of common stock.

TRUE

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.

Revsine - Chapter 02 #54

55. Diluted earnings per share is a required disclosure for all corporations that have outstanding preferred stock.

FALSE

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.

Revsine - Chapter 02 #55

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.

TRUE

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.

Revsine - Chapter 02 #56

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.

TRUE

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

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.

Revsine - Chapter 02 #57

58. Selected unrealized gains (or losses) sometimes bypass the income statement and are reported as direct adjustments to a stockholders' equity account.

TRUE

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.

Revsine - Chapter 02 #58

59. The basic accounting equation may be expressed as assets = liabilities - owners' equity.

FALSE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #59

60. Debit means increase.

FALSE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #60

61. A contra account is an account that is subtracted from a related account.

TRUE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #61

62. Revenues increase owners' equity and expenses decrease owners' equity.

TRUE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #62

63. To get revenue and expense account balances to zero an adjusting entry is made.

FALSE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #63

64. For each transaction, the dollar total of the debits must equal the dollar total of the credits.

TRUE

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #64

65. An adjusting entry is required whenever all economic events that have occurred are not already reflected in the accounts.

TRUE

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #65

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

66. Adjusting entries always fall into one of two categories: adjustments for prepayments or adjustments for unearned revenues.

FALSE

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #66

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

67. The FASB and IASB are working on a proposed new statement of comprehensive income and have tentatively decided to retain the current formatting options.

FALSE

AACSB: Diversity
AICPA BB: Global
Bloom's: Knowledge
Difficulty: Medium

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #67

68. The goal of the FASB's proposed changes for the Statement of Comprehensive Income is to enhance the predictive ability and decision usefulness of accounting data for present and potential investors and creditors.

TRUE

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #68

69. The *cohesiveness principle* set forth in the FASB's exposure draft on financial statement presentation means that firms should present information in their financial statements so that the relationship between items across financial statements is clear and that the statements complement or articulate with each other as much as possible.

TRUE

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #69

70. The *disaggregation principle* set forth in the FASB's exposure draft on financial statement presentation requires entities to disaggregate accounting data displayed in financial statements only by function.

FALSE

Disaggregation should also be considered by nature and measurement basis.

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #70

71. The goal of the FASB's proposed changes in financial statement presentation is the same as that of present financial reporting, namely to assist statement users in predicting the amount, timing and uncertainty of future cash flows.

TRUE

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #71

72. Under the FASB's exposure draft on financial statement presentation, financing costs arising from on-going operating activities are presented in the "business section" of the Statement of Comprehensive Income.

TRUE

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #72

73. Under the FASB's exposure draft on financial statement presentation, the discontinued operations section of the Statement of Comprehensive Income (SCI) modifies existing requirements by reporting gains and losses from a component of an entity that is being discontinued as a category within the business section of the SCI.

FALSE

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #73

74. Expenses
- A. are recorded in the accounting period when they are "earned" and become "measurable."
 - B. consist of amounts paid for consumable items and services rendered to the organization during the accounting period.
 - C.** are the expired costs or assets "used up" during the accounting period.
 - D. would include cash payments to employees during the period for services rendered.

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

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

Learning Objective: 02-03 The matching principle and how it is applied to recognize expenses under accrual accounting.

Revsine - Chapter 02 #74

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.

Revsine - Chapter 02

75. Under the cash basis, how much revenue should Canon recognize in October?
- A. \$0
 - B.** \$16,000
 - C. \$24,000
 - D. \$40,000

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Medium

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

Revsine - Chapter 02 #75

76. Under the accrual basis, how much revenue should Canon recognize in November?

- A. \$0
- B. \$16,000
- C. \$24,000
- D. \$40,000

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Medium
Revsine - Chapter 02 #76

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

77. Using the accrual basis, which one of the following entries would properly record Canon's revenue

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	

recognition for October?

- A. Option a
- B. Option b
- C. Option c
- D. Option d

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Medium
Revsine - Chapter 02 #77

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

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).

Revsine - Chapter 02

78. What is the amount of Hickory's cash-basis expense for the month of May?

- A. \$33,600
- B. \$42,400
- C. \$50,000
- D. \$51,600

Cash expenses = Inventory purchases \$40,000, Advertising \$8,000, Delivery Costs \$2,000

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Easy
Revsine - Chapter 02 #78

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

79. What is the amount of Hickory's May expense when applying the matching principle?
- A. \$33,600
 - B. \$42,400
 - C. \$43,600**
 - D. \$50,000

Accrual expenses = Cost of Goods Sold \$32,000, Advertising \$8,000, Delivery Costs \$2,000, and Warranty Costs \$1,600

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Medium

Learning Objective: 02-01 The distinction between cash-basis versus accrual income and why accrual basis income generally is a better measure of operating performance.

Revsine - Chapter 02 #79

80. What type of cost is the advertising expense?
- A. Product cost
 - B. Traceable cost
 - C. Inventory cost
 - D. Period cost**

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

Learning Objective: 02-04 The difference between product and period costs.

Revsine - Chapter 02 #80

81. Revenues are 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.

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

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

Revsine - Chapter 02 #81

82. Income recognition always increases
- A. assets.
 - B. net assets.**
 - C. liabilities.
 - D. net liabilities.

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

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

Revsine - Chapter 02 #82

83. The real accounting issue in income recognition is the
- A. quantity of income recognized.
 - B. type of income recognized.
 - C. timing of the recognition.**
 - D. basis of income recognition.

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

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

Revsine - Chapter 02 #83

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #84

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #85

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #86

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

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Synthesis
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #87

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.
Revsine - Chapter 02 #88

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.

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

Learning Objective: 02-02 The criteria for revenue recognition under accrual accounting and how they are used in selected industries.

Revsine - Chapter 02 #89

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.

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

Learning Objective: 02-03 The matching principle and how it is applied to recognize expenses under accrual accounting.

Revsine - Chapter 02 #90

91. Traceable costs are also called
- A. period costs.
 - B. expired costs.
 - C.** product costs.
 - D. administrative costs.

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

Learning Objective: 02-04 The difference between product and period costs.

Revsine - Chapter 02 #91

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.

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

Learning Objective: 02-04 The difference between product and period costs.

Revsine - Chapter 02 #92

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.

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

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

Revsine - Chapter 02 #93

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #94

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium
Revsine - Chapter 02 #95

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Revsine - Chapter 02 #96

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

97. Transitory earnings components fall into all of the following categories **except**
- A. special or unusual items.
 - B. discontinued operations.
 - C. extraordinary items.
 - D.** cumulative effect of accounting changes.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Revsine - Chapter 02 #97

Learning Objective: 02-05 The format and classifications for a multiple-step income statement and how the statement format is designed to differentiate earnings components that are more sustainable from those that are more transitory.

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.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Application
Difficulty: Difficult
Revsine - Chapter 02 #98

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #99

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Hard
Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #100

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy
Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #101

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #102

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.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Analysis
Difficulty: Medium
Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #103

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.

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #104

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.

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #105

106. A cumulative effect of a change in an accounting principle is measured as
- A the difference between prior periods' 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' 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' income and current 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' income and current 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.

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #106

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 income figure of the previously reported income.
 - C no prior years' income statements be restated, but a pro forma 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 income figures be provided.

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #107

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' income.
 - B. as an error correction.
 - C. as a change in an accounting estimate.
 - D.** using the retrospective approach.

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

Learning Objective: 02-06 The distinction between special and unusual items; discontinued operations; and extraordinary items.
Revsine - Chapter 02 #108

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' income.
 - B. as an error correction.
 - C.** as a change in an accounting estimate.
 - D. using the retrospective approach.

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #109

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' income.
 - B. as an error correction.
 - C. as a change in an accounting estimate.
 - D. using the retrospective approach.

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #110

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 total 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

$$\$300,000 - (\$40,000 \times 3) = \$180,000 \text{ (remaining book value)} \div 2 \text{ (remaining useful life)} = \$90,000$$

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

Learning Objective: 02-07 How to report a change in accounting principle; accounting estimate; and accounting entity.
Revsine - Chapter 02 #111

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.

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.
Revsine - Chapter 02 #112

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.

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

Learning Objective: 02-08 The distinction between basic and diluted earnings per share (EPS) and required EPS disclosures.
Revsine - Chapter 02 #113

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.

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

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.
Revsine - Chapter 02 #114

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.

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

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.
Revsine - Chapter 02 #115

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.

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

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.
Revsine - Chapter 02 #116

117. Current U.S. GAAP permits firms to display the components of other comprehensive income in all of the following formats **except**
- 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 single statement, one in which net income and other comprehensive income are added together.

AACSB: Reflective thinking
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium
Revsine - Chapter 02 #117

Learning Objective: 02-09 What comprises comprehensive income and how it is displayed in financial statements.

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

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Medium

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #118

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.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #119

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.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Comprehension
Difficulty: Medium

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #120

121. A debit
- A. increases Accounts Payable.
 - B.** increases Cost of Goods Sold.
 - C. decreases Accounts Receivable.
 - D. decreases Equipment.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #121

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.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #122

123. Accumulated depreciation is a/an
- A. expense account.
 - B. liability account.
 - C.** contra-asset account.
 - D. owners' equity account.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #123

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.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #124

125. Which of the following is a true statement?
- A. Revenues decrease owners' equity and increase liabilities.
 - B. Expenses increase owners' equity and decrease liabilities.
 - C.** Revenues increase owners' equity and expenses decrease owners' equity.
 - D. Revenues decrease owners' equity and expenses increase owners' equity.

AACSB: Analytic
AICPA FN: Measurement
Bloom's: Knowledge
Difficulty: Easy

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #125

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.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.

Revsine - Chapter 02 #126

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.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.
Revsine - Chapter 02 #127

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.

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

Learning Objective: 02-10 Key components and format of statement of comprehensive income under the joint FASB/IASB proposal on financial statement presentation.
Revsine - Chapter 02 #128

129. The FASB's exposure draft on financial statement presentation sets forth these two presentation principles:
- A. cohesiveness and nature.
 - B. disaggregation and measurement.
 - C.** cohesiveness and disaggregation.
 - D. function and nature.

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #129

130. Under the FASB's proposed Statement of Comprehensive Income, the *investing activities category* within the business section reflects
- A.** those activities not related to the central purpose for which the entity is in business.
 - B. the effects of a single acquisition or disposal transaction that recognizes or derecognizes assets or liabilities that are classified in more than one section or category on the statement of financial position.
 - C. the revenues and expenses related to the central purpose(s) for which an entity is in business.
 - D. the effects of transactions with customers, suppliers and employees.

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

Learning Objective: 02-11 The procedures for preparing financial statements and how to analyze T-accounts.
Revsine - Chapter 02 #130