

# Certified Public Accountant - Financial Accounting

1. According to the FASB conceptual framework, the objectives of financial reporting for business enterprises are based on:

A. Generally accepted accounting principles.

B. Reporting on management's stewardship.

C. The need for conservatism.

D. The needs of the users of the information.

**Answer(s): D**

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2. According to the FASB conceptual framework, the usefulness of providing information in financial statements is subject to the constraint of:

A. Consistency.

B. Cost-benefit.

C. Reliability.

D. Representational faithfulness.

**Answer(s): B**

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3. According to the FASB conceptual framework, which of the following attributes would not be used to measure inventory?

A. Historical cost.

B. Replacement cost.

C. Net realizable value.

D. Present value of future cash flows.

**Answer(s): D**

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4. According to the FASB conceptual framework, which of the following situations violates the concept of reliability?

A. Data on segments having the same expected risks and growth rates are reported to analysts estimating future profits.

B. Financial statements are issued nine months late.

C. Management reports to stockholders regularly refer to new projects undertaken, but the financial statements never report project results.

D. Financial statements include property with a carrying amount increased to management's estimate of market value.

**Answer(s): D**

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5. In the hierarchy of generally accepted accounting principles, APB Opinions have the same authority as AICPA:

A. Statements of Position.

B. Industry Audit and Accounting Guides.

C. Issues Papers.

D. Accounting Research Bulletins.

**Answer(s): D**

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6. What is the underlying concept that supports the immediate recognition of a contingent loss?

A. Substance over form.

B. Consistency.

C. Matching.

D. Conservatism.

**Answer(s): D**

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7. According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:

A. Allocation.

B. Matching.

C. Realization.

D. Recognition.

**Answer(s): D**

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8. What are the Statements of Financial Accounting Concepts intended to establish?

A. Generally accepted accounting principles in financial reporting by business enterprises.

B. The meaning of "Present fairly in accordance with generally accepted accounting principles."

C. The objectives and concepts for use in developing standards of financial accounting and reporting.

D. The hierarchy of sources of generally accepted accounting principles.

**Answer(s): C**

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9. During a period when an enterprise is under the direction of a particular management, its financial statements will directly provide information about:

- A. Both enterprise performance and management performance.
- B. Management performance but not directly provide information about enterprise performance.
- C. Enterprise performance but not directly provide information about management performance.
- D. Neither enterprise performance nor management performance.

**Answer(s): C**

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10. According to the FASB conceptual framework, which of the following statements conforms to the realization concept?

- A. Equipment depreciation was assigned to a production department and then to product unit costs.
- B. Depreciated equipment was sold in exchange for a note receivable.
- C. Cash was collected on accounts receivable.
- D. Product unit costs were assigned to cost of goods sold when the units were sold.

**Answer(s): B**

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11. In Yew Co.'s 1992 annual report, Yew described its social awareness expenditures during the year as follows:

"The Company contributed \$250,000 in cash to youth and educational programs. The Company also gave \$140,000 to health and human-service organizations, of which \$80,000 was contributed by employees through payroll deductions. In addition, consistent with the Company's commitment to

the environment, the Company spent \$100,000 to redesign product packaging." What amount of the above should be included in Yew's income statement as charitable contributions expense?

A. \$310,000

B. \$390,000

C. \$410,000

D. \$490,000

**Answer(s):** A

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**12.** According to the FASB conceptual framework, which of the following relates to both relevance and reliability?

A. Comparability.

B. Feedback value.

C. Verifiability.

D. Timeliness.

**Answer(s):** A

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**13.** Which of the following is true regarding the comparison of managerial to financial accounting?

A. Managerial accounting is generally more precise.

B. Managerial accounting has a past focus and financial accounting has a future focus.

C. The emphasis on managerial accounting is relevance and the emphasis on financial accounting is timeliness.

D. Managerial accounting need not follow generally accepted accounting principles (GAAP) while financial accounting must follow them.

**Answer(s):** D

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**14.** Which of the following is a generally accepted accounting principle that illustrates the practice of conservatism during a particular reporting period?

A. Capitalization of research and development costs.

B. Accrual of a contingency deemed to be reasonably possible.

C. Reporting investments with appreciated market values at market value.

D. Reporting inventory at the lower of cost or market value.

**Answer(s):** D

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**15.** Arpco, Inc., a for-profit provider of healthcare services, recently purchased two smaller companies and is researching accounting issues arising from the two business combinations. Which of the following accounting pronouncements are the most authoritative?

A. AICA Statements of Position.

B. AICPA Industry and Audit Guides.

C. FASB Statements of Financial Accounting Concepts.

D. FASB Statements of Financial Accounting Standards.

**Answer(s):** D

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**16.** According to the FASB conceptual framework, the quality of information that helps users increase the likelihood of correctly forecasting the outcome of past or present events is called:

A. Feedback value.

B. Predictive value.

C. Representational faithfulness.

D. Reliability.

**Answer(s): B**

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**17.** Which of the following assumptions means that money is the common denominator of economic activity and provides an appropriate basis for accounting measurement and analysis?

A. Going concern.

B. Periodicity.

C. Monetary unit.

D. Economic entity.

**Answer(s): C**

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**18.** Which of the following statements best describes an operating procedure for issuing a new Financial Accounting Standards Board (FASB) statement?

A. The emerging issues task force must approve a discussion memorandum before it is disseminated to the public.

B. The exposure draft is modified per public opinion before issuing the discussion memorandum.

C. A new statement is issued only after a majority vote by the members of the FASB.

D. A new FASB statement can be rescinded by a majority vote of the AICPA membership.

**Answer(s): C**

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**19.** Income tax-basis financial statements differ from those prepared under GAAP in that income tax-basis financial statements:

A. Do not include nontaxable revenues and nondeductible expenses in determining income.

B. Include detailed information about current and deferred income tax liabilities.

C. Contain no disclosures about capital and operating lease transactions.

D. Recognize certain revenues and expenses in different reporting periods.

**Answer(s): D**

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**20.** An extraordinary gain should be reported as a direct increase to which of the following?

A. Net income.

B. Comprehensive income.

C. Income from continuing operations, net of tax.

D. Income from discontinued operations, net of tax.

**Answer(s): A**

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