

1. CPA-00005

What is the underlying concept governing the generally accepted accounting principles pertaining to recording gain contingencies?

- a. Conservatism.
- b. Relevance.
- c. Consistency.
- d. Reliability.

CPA-00005 Explanation

Choice "a" is correct. Gain contingencies should not be recognized prior to realization as a prudent reaction to the uncertainty surrounding the realization of the gain as reflected in the convention of conservatism. SFAS 5 para. 17, SFAC 2 Glossary and para. 95

Choice "b" is incorrect. Overall the qualities of information apply equally to all accounting information, not just gain contingencies. Relevance is a primary quality of information, which dictates that any information relative to the entity should be reported if it might be useful to the third party user (that is the information is timely with predictive and feedback value). SFAC 2 para. 32

Choice "c" is incorrect. Overall the qualities of information apply equally to all accounting information, not just gain contingencies. This includes consistency, an element of comparability, the secondary quality of information, which specifies that, when a choice of accounting principles has been made, the same principle be used in accounting for subsequent years' transactions. SFAC 2 para. 32

Choice "d" is incorrect. Overall the qualities of information apply equally to all accounting information, not just gain contingencies. This includes reliability, a primary quality, which requires that information, be verifiable, neutral, and representationally faithful. SFAC 2 para. 32

2. CPA-00010

According to Statements of Financial Accounting Concepts, neutrality is an ingredient of:

	<u>Reliability</u>	<u>Relevance</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

CPA-00010 Explanation

Choice "b" is correct. The characteristics of reliability are verifiability, representational faithfulness, and neutrality. The characteristics of relevance are predictive value, feedback value, and timeliness. SFAC 2 para. 62

3. CPA-00020

On December 31, 1992, Brooks Co. decided to end operations and dispose of its assets within three months. At December 31, 1992, the net realizable value of the equipment was below historical cost. What is the appropriate measurement basis for equipment included in Brooks' December 31, 1992, balance sheet?

- a. Historical cost.
- b. Current reproduction cost.
- c. Net realizable value.
- d. Current replacement cost.

CPA-00020 Explanation

Choice "c" is correct. Net realizable value is the appropriate measurement basis for equipment included in Brooks' Dec. 31, 1992 balance sheet, because of the decision to end operations and quickly (3 months) dispose of its assets.

Choice "a" is incorrect. Historical cost is appropriate if operations were continuing.

Choice "b" is incorrect. Current reproduction cost (producing new and substantially identical assets, at current prices, adjusted for depreciation to date) is appropriate in optional supplemental price level financial statements.

Choice "d" is incorrect. Current replacement cost (acquiring new and substantially equivalent property at current prices, adjusted for estimated depreciation since acquisition) is appropriate in optional supplemental price level financial statements.

4. CPA-00031

Scott Corporation sold a fixed asset used for operations for greater than its carrying amount. Scott should report the transaction in the income statement using the:

- a. Gross concept, showing the proceeds as part of revenues and the carrying amount as part of expenses in the continuing operations section.
- b. Net concept, showing the total amount as an extraordinary item, net of income taxes.
- c. Net concept, showing the total gain as part of discontinued operations, net of income taxes.
- d. Net concept, showing the total gain as part of continuing operations, not net of income taxes.

CPA-00031 Explanation

Choice "d" is correct. The transaction resulted in a gain, which should be reported using the net concept (i.e., proceeds less carrying amount). This gain resulted in the recognition of an asset not in the ordinary course of business, but it did not qualify as an extraordinary item or as part of discontinued operations.

Choices "a", "b", and "c" are incorrect, per the above explanation.

5. CPA-00052

Which of the following should be included in general and administrative expenses?

	<u>Interest</u>	<u>Advertising</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

CPA-00052 Explanation

Choice "d" is correct. Interest expense is classified as a separate line item on the income statement. Advertising is classified as a selling expense.

6. CPA-00045

During January 20X3, Doe Corp. agreed to sell the assets and product line of its Hart division. The sale was completed on January 15, 20X4 and resulted in a gain on disposal of \$900,000. Hart's operating losses were \$600,000 for 20X3 and \$50,000 for the period January 1 through January 15, 20X4. Disregarding income taxes, what amount of net gain (loss) should be reported in Doe's comparative 20X4 and 20X3 income statements?

	<u>20X3</u>	<u>20X4</u>
a.	\$0	\$250,000
b.	\$250,000	\$0
c.	\$(600,000)	\$850,000
d.	\$(650,000)	\$900,000

CPA-00045 Explanation

Choice "c" is correct. The 20X3 operating losses would be reported in the 20X3 income statement. The 20X4 operating losses and the gain on disposal would be netted and reported in the 20X4 income statement. Each amount would be reported in the period it occurred.

Choice "a" is incorrect. It reports the total projected gains and losses in 20X4 and nothing in 20X3. Each amount should be reported in the period it occurred.

Choice "b" is incorrect. It reports the total projected gains and losses in 20X3 and nothing in 20X4. Each amount should be reported in the period it occurred.

Choice "d" is incorrect. It reports the total projected losses in 20X3 and the gain in 20X4. Each amount should be reported in the period it occurred.

7. CPA-00055

On October 1, 20X4, Host Co. approved a plan to dispose of one of the company's operating segments. Host expected that the sale would occur on April 1, 20X5 at an estimated gain of \$350,000. The segment had actual and estimated operating losses as follows:

1/1/X4 to 9/30/X4	\$(300,000)
10/1/X4 to 12/31/X4	(200,000)
1/1/X5 to 3/31/X5	(400,000)

In its 20X4 income statement, what should Host report as a loss from discontinued operations before income taxes?

- a. \$200,000
- b. \$550,000
- c. \$500,000
- d. \$900,000

CPA-00055 Explanation

Choice "c" is correct. In its 20X4 income statement, Host would include in its loss from discontinued operations the 20X4 losses but not the projected 20X5 operating losses and not the projected gain on disposal. The 20X4 losses are \$500,000 in total.

The projected 20X5 operating loss of \$400,000 and the projected gain on disposal would be included in its 20X5 income statement.

Choice "a" is incorrect. It includes only a portion of the 20X4 operating losses in the 20X4 loss from discontinued operations. Each amount should be reported in the period it occurred, and the entire 20X4 operating loss, not just the portion that occurred after the decision date, would be included.

Choice "b" is incorrect. It includes all of the projected operating losses and the projected gain in the 20X4 loss from discontinued operations. Each amount should be reported in the period it occurred.

Choice "d" is incorrect. It includes all of the projected operating losses in the 20X4 loss from discontinued operations. Each amount should be reported in the period it occurred.