Question 1 of 71

How does the balance sheet help users?

A. It depicts the true value of an entity.

B. It measures the nonfinancial performance of an entity.

C. It shows the financial performance of an entity over a specific accounting period.

D. It assesses an entity's liquidity, solvency, financial flexibility, and operating capability.

Question 2 of 71

The calculation of comprehensive income includes which of the following?

A. Operating income

B. Neither operating income nor distribution to owners

C. Distribution to owners

D. Operating income and distribution to owners

Question 3 of 71

Last year Urban Kicks earned $5.2 million from the sale of shoes and $1.4 million from the sale of one of their manufacturing plants. How would these cash flows be categorized on the statement of cash flows?

A. Both would be recorded as an operating activity on the statement of cash flows.

B. Both would be recorded as an investing activity on the statement of cash flows.

C. Money from the sale of shoes would be recorded as an operating activity in the statement of cash flows, while money from the sale of property would be recorded as an investing activity in the statement of cash flows.

D. Money from the sale of property would be recorded as an operating activity on the statement of cash flows, while money from the sale of shoes would be recorded as an investing activity on the statement of cash flows.

Question 4 of 71

Which section of the statement of cash flows includes the proceeds from selling equipment?

A. Investing

B. Financing

C. Operating

D. Noncash activities

Question 5 of 71

When considering research and development costs, how are equipment costs different if they are used for one project only versus current and future projects?

A. If equipment is purchased for one project only, the costs are capitalized and amortized; if equipment is purchased for more than one project, the costs are capitalized but not amortized.

B. If equipment is purchased for one project only, the costs are capitalized but not amortized; if equipment is purchased for more than one project, the costs are expensed as incurred.

C. If equipment is purchased for one project only, the costs are expensed as incurred; if equipment is purchased for more than one project, the costs are capitalized but not amortized.

D. If equipment is purchased for one project only, the costs are expensed as incurred; if equipment is purchased for more than one project, the costs are capitalized and amortized.

Question 6 of 71

Assets, liabilities, and equity describe the amount of resources and claims to resources that a company has at which time(s)?

A. At a moment in time and during a period of time

B. During a period of time

C. Neither at a moment in time nor during a period of time

D. At a moment in time

Question 7 of 71

How are financial statements related to the objective of financial reporting?

A. Companies use financial statements to document their cash flow, and documenting cash flow is the objective of financial reporting.

B. Companies use financial statements to determine selling prices of products, and determining selling prices of products is the objective of financial reporting.

C. Companies use financial statements to determine which new projects to pursue, and deciding which projects to pursue is the objective of financial reporting.

D. Companies use financial statements to provide financial information to potential capital providers, and providing information to capital providers is the objective of financial reporting.

Question 8 of 71

While approving the financial statements for the current year, the management accountant of Rachael Groups discovered that sales were overstated. Which of the following is the **most likely** reason for the overstatement?

A. Sales returns recorded are more than actual returns.

B. Abnormal losses are not accounted for.

C. General sales tax collected from customers was included in sales.

D. The last in, first out method is used for valuation of inventory.

Question 9 of 71

With regard to comprehensive income, how does net income differ in a one-statement approach compared to a two-statement approach?

A. Net income includes comprehensive income in a one-statement approach but not in a two-statement approach.

B. Net income in a one-statement approach is used to calculate earnings per share, but earnings per share are not reported in a two- statement approach.

C. Net income is reported as a subtotal in a one-statement approach but as a total on a two-statement approach.

D. Net income includes income, expenses, gains, and losses all together in a one-statement approach, but income and expenses are separated from gains and losses when calculating net income in a two-statement approach.

Question 10 of 71

Alex and Grace are both analyzing intangible assets to determine if they need to be amortized. Alex is analyzing an indefinite-life intangible asset, whereas Grace is analyzing a limited-life intangible asset. What do you expect their conclusions will be?

A. Alex will decide to amortize his asset, while Grace will decide not to amortize her asset.

B. Both Alex and Grace will decide to amortize their assets.

C. Alex will decide not to amortize his asset, while Grace will decide to amortize her asset.

D. Both Alex and Grace will decide not to amortize their assets.

Question 11 of 71

Last year, Alpha Corporation spent $250,000 to repurchase 15,000 shares of its own outstanding common stock. The company also paid $40,000 in interest on a construction loan that it had obtained from its bank. How should these transactions be reflected on Alpha's annual statement of cash flows, and why?

A. The two transactions should be reported in separate sections of the statement because one involves a change in equity while the other involves a change in income. Specifically, Alpha should record a $250,000 cash outflow in the financing section and a $40,000 cash outflow in the operating section.

B. The two transactions should be reported in separate sections of the statement because one involves long-term assets while the other involves long-term liability. Specifically, Alpha should record a $250,000 cash outflow in the investing section and a $40,000 cash outflow in the financing section.

C. Both transactions should be reported in the operating activities section of the statement because both involve alterations in the company's income. Because the two transactions are unrelated, they should be recorded separately—as a $250,000 cash outflow from the stock repurchase and a $40,000 cash outflow from the interest payment.

D. Both transactions should be reported in the financing activities section of the statement because both involve long-term liability and/or equity items. Because the two transactions are unrelated, they should be recorded separately—as a $250,000 cash outflow from the stock repurchase and a $40,000 cash outflow from the interest payment.

Question 12 of 71

Suzanne Rogers, a financial analyst, is analyzing Capital One's stock. She is more interested in estimating the cash flows Capital One can generate. From the financial analyst's perspective, which of the following balance sheet reporting is **best** suited to avoid adjustments?

A. Inventory reported at current market value; fixed assets reported at historical cost.

B. Inventory reported at replacement cost; fixed assets reported at market value.

C. Inventory reported at historical cost; fixed assets reported at historical cost.

D. Inventory reported at historical cost; fixed assets reported at fair value.

Question 13 of 71

Benson Toys spent $21 million on research and development in 20x6. This R&D resulted in eight new product patents. The fees associated with obtaining the patents totaled $517,000. When Benson does their accounting, how will they record these costs?

A. They will expense $21 million and capitalize $517,000.

B. They will capitalize $21 million and expense $517,000.

C. They will expense $21,517,000.

D. They will capitalize $21,517,000.

Question 14 of 71

The management of Arthur Energy recognized a contingent liability of $50,000 in the current year. However, before the annual report was issued, the company resolved the issue, making a lump-sum payment of $42,000. The board of directors has decided to incorporate the transaction in the subsequent year's financial statements rather than to adjust the statements about to be issued. Which of the following provisions of U.S. GAAP, if applicable, is likely to suggest that management's decision is wrong?

A. If an event provides additional evidence about conditions that existed as of the balance sheet date before statements are issued, and the event clarifies the estimates used, then the financial statements should be adjusted.

B. Loss contingencies must be recognized when it is probable that a loss has been incurred and the amount of the loss is reasonably estimable.

C. Whenever GAAP or industry-specific regulations allow a choice between two or more accounting methods, the method selected should be disclosed.

D. As new information becomes available about estimates made in previous years, those estimates should always be adjusted and financial statements should be restated if they have been previously issued.
