

## QUESTION 1

During January Year 3, Doe Corp. agreed to sell the assets and product line of its Hart division. The decision represents a major strategic shift for Doe and will have a significant effect on its operations and financial results. The sale was completed on January 15, Year 4, and resulted in a gain on disposal of \$900,000. Hart's operating losses were \$600,000 for Year 3 and \$50,000 for the period January 1 through January 15, Year 4. Disregarding income taxes, what amount of net gain (loss) should be reported in Doe's comparative Year 4 and Year 3 income statements?

	<u>Year 3</u>	<u>Year 4</u>
<b>A.</b>	\$0	\$250,000
<b>B.</b>	\$(600,000)	\$850,000
<b>C.</b>	\$250,000	\$0
<b>D.</b>	\$(650,000)	\$900,000

## QUESTION 2

Which of the following items should be shown as a component of comprehensive income?

- A.** Deferred revenue.
- B.** Foreign-currency translation adjustment.
- C.** Additional capital contribution.
- D.** Dividend paid to a shareholder.

### QUESTION 3

A company's year-end comparative statement of financial position reflects the following changes from the prior year: cash increased by \$40,000, total liabilities increased by \$32,000, and all other assets decreased by \$65,000. Which of the following statements is correct regarding the current-year change in the company's stockholders' equity?

- A.** It increased by \$25,000.
- B.** It decreased by \$57,000.
- C.** It decreased by \$32,000.
- D.** It increased by \$105,000.

## QUESTION 4

The following costs were incurred by Griff Co., a manufacturer:

Accounting and legal fees	\$25,000
Freight-in	175,000
Freight-out	160,000
Officers salaries	150,000
Insurance	85,000
Sales representatives salaries	215,000

What amount of these costs should be reported as general and administrative expenses?

- A.** \$550,000
- B.** \$260,000
- C.** \$635,000
- D.** \$810,000

## QUESTION 5

Envoy Co. manufactures and sells household products. Envoy experienced losses associated with its small appliance group. Operations and cash flows for this group can be clearly distinguished from the rest of Envoy's operations. Envoy plans to sell the small appliance group with its operations. What is the earliest point at which Envoy should report the small appliance group as a discontinued operation?

- A.** When Envoy receives an offer for the segment.
- B.** When Envoy classifies it as held for sale.
- C.** When Envoy first sells any of the assets of the segment.
- D.** When Envoy sells the majority of the assets of the segment.

## QUESTION 6

Reclassification adjustments must be shown in the financial statement that discloses comprehensive income:

- A.** To avoid including transactions with shareholders in items of comprehensive income.
- B.** To show what portion of comprehensive income is from the realization of current assets.
- C.** To avoid double counting in comprehensive income items, which are currently displayed in net income.
- D.** To show the tax effect of items of comprehensive income.

## QUESTION 7

Which of the following is *not* used in the calculation of comprehensive income?

- A.** Unrealized gain on available-for-sale debt securities held at year-end.
- B.** Realized losses on trading debt securities sold during the year.
- C.** Gain on reissuance of treasury stock under the cost method.
- D.** Losses from foreign currency translations.

## QUESTION 8

Under U.S. GAAP, the effect of a material transaction that is infrequent in occurrence but not unusual in nature should be presented separately as a component of income from continuing operations when the transaction results in a:

Gain   Loss

- A.**   Yes   No
- B.**   Yes   Yes
- C.**   No   No
- D.**   No   Yes

## QUESTION 9

Which of the following items would *not* be found in comprehensive income?

- A.** Nonmonetary exchanges of common stock for productive assets.
- B.** Recognition of prior service cost due to pension plan amendment.
- C.** Unrealized losses from changes in the value of available-for-sale debt securities.
- D.** Income from continuing operations.

## QUESTION 10

Which of the following items is *not* classified as "other comprehensive income?"

- A.** Minimum pension liability equity adjustment for a defined-benefit pension plan.
- B.** Gains from extinguishment of debt.
- C.** Unrealized gains for the year on available-for-sale debt securities.
- D.** Foreign currency translation adjustments.

## QUESTION 11

On October 1, 20X4, Host Co. approved a plan to dispose of one of the company's operating segments. The decision represents a major strategic shift for Host and will have a significant effect on its operations and financial results. 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.** \$900,000
- B.** \$550,000
- C.** \$500,000
- D.** \$200,000

## QUESTION 12

On November 1, Year 1, Smith Co. contracted to dispose of an industry segment. Throughout Year 1 the segment had operating losses. These losses were expected to continue until the segment's disposition. If a loss is projected on final disposition, how much of the operating losses should be included in the loss from discontinued operations reported in Smith's Year 1 income statement?

- I. Operating losses for the period January 1 to October 31, Year 1.
  - II. Operating losses for the period November 1 to December 31, Year 1.
  - III. Estimated operating losses for the period January 1 to February 28, Year 2.
- A.** I and II only.
  - B.** I and III only.
  - C.** II and III only.
  - D.** II only.

### QUESTION 13

For the fiscal year ended June 30, Year 1, Safety Toys Company reported after-tax income from continuing operations of \$87,500,000 and income from discontinued operations of \$5,650,000 (net of tax). There were no other items impacting the company's net earnings. Additionally, the company had a foreign currency translation gain of \$1,100,000 (net of tax) and an \$800,000 loss (net of tax) from a current amendment impacting Safety's prior service cost associated with its pension plan's funded status. Given the above and assuming that a \$55,000 loss from a fair value hedge was included in reported income from continuing operations, what is the company's comprehensive income for the fiscal year ended June 30, Year 1?

- A.** \$91,300,000
- B.** \$87,800,000
- C.** \$93,450,000
- D.** \$94,195,000

## QUESTION 14

Which of the following statements is correct regarding the reporting of comprehensive income?

- A.** All companies must present a statement of comprehensive income.
- B.** The statement of comprehensive income can be shown as part of the footnotes only or as a separate financial statement.
- C.** Comprehensive income may be presented in a single financial statement that presents both net income and comprehensive income.
- D.** Other comprehensive income per share is presented in a statement of comprehensive income.

## QUESTION 15

What is the purpose of reporting comprehensive income?

- A.** To summarize all changes in equity from nonowner sources.
- B.** To reconcile the difference between net income and cash flows provided from operating activities.
- C.** To provide a consolidation of the income of the firm's segments.
- D.** To provide information for each segment of the business.

## QUESTION 15

A European company has made a purchase, which it intends to pay for in Japanese yen. Which of the following exchange rate movements will give rise to a loss for the company?

- I. The euro depreciating versus the yen
- II. The yen appreciating versus the euro
- III. When more euros are needed to purchase one yen
- IV. When more yen are needed to purchase one euro

- A.** III only.
- B.** I, II, and III.
- C.** IV only.
- D.** I, II, and IV

## QUESTION 16

A company reports the following information as of December 31:

Sales revenue	\$800,000
Cost of goods sold	600,000
Operating expenses	90,000
Unrealized holding gain on available-for-sale debt securities, net of tax	30,000

What amount should the company report as comprehensive income as of December 31?

- A.** \$200,000
- B.** \$30,000
- C.** \$110,000
- D.** \$140,000

## QUESTION 17

The balance in the accumulated other comprehensive income account at the end of the current year is a debit balance. Where in the financial statements should the balance be properly shown?

- A.** In the balance sheet as a reduction of equity.
- B.** In the balance sheet as an asset.
- C.** As an expense net of tax between discontinued operations and net income.
- D.** As an expense on the statement of comprehensive income.

## QUESTION 18

Coffey Corp.'s trial balance of Income Statement Accounts for the year ended December 31 as follows:

	<u>Debit</u>	<u>Credit</u>
Net sales		\$1,600,000
Cost of goods sold	\$ 960,000	
Selling expenses	235,000	
Administrative expenses	150,000	
Interest expense	25,000	
Gain on debt extinguishment		10,000
Totals	<u><b>\$1,370,000</b></u>	<u><b>\$1,610,000</b></u>

Coffey uses U.S. GAAP and has an income tax rate of 30%. The gain on debt extinguishment is considered a usual and recurring part of Coffey's operations. Coffey prepares a multiple-step income statement.

Income from continuing operations before income tax is:

- A. \$240,000
- B. \$190,000
- C. \$200,000
- D. \$230,000

## QUESTION 19

Which of the following statements regarding the reporting options for other comprehensive income is true?

- A.** When companies choose to report their comprehensive income as part of the statement of changes in stockholder's equity, this is shown under the retained earnings column.
- B.** If the two statement method for reporting comprehensive income is used, companies have the choice of reporting each line net of tax or before related taxes, with one amount shown for the aggregate income tax expense or benefit related to the total of all comprehensive income items.
- C.** If the single statement method of reporting comprehensive income is used, the comprehensive income items cannot be reported net of tax, and instead the tax related to all comprehensive items must be included on one line.
- D.** Companies that report net income and comprehensive income on a single statement must ensure that the earnings per share calculation includes both net income and other comprehensive income.