

Intermediate Accounting, 9e (Spiceland)

Chapter 1 Environment and Theoretical Structure of Financial Accounting

- 1) The primary function of financial accounting is to provide relevant financial information to parties external to business enterprises.
- 2) Accrual accounting attempts to measure revenues and expenses that occurred during accounting periods so they equal net operating cash flow.
- 3) The FASB is currently the public-sector organization responsible for setting accounting standards in the United States.
- 4) The FASB's due process invites various interested parties to indicate their opinions about whether financial accounting standards should be changed.
- 5) Accounting for stock-based compensation is an area in which the FASB has received little political interference.
- 6) The Public Reform and Investor Protection Act of 2002 (Sarbanes-Oxley) changed the entity responsible for setting auditing standards in the United States.
- 7) A rules-based approach to standard-setting stresses professional judgment as opposed to following a list of rules.
- 8) Under federal securities laws, the SEC has the authority to set accounting standards in the United States.
- 9) The primary responsibility for properly applying GAAP when communicating with investors and creditors through financial statements lies with a firm's auditors.
- 10) Auditors play an important role in the resource allocation process by adding credibility to financial statements.
- 11) The purpose of the conceptual framework is to provide a structure and framework for a consistent set of GAAP.
- 12) In the United States, the conceptual framework indicates GAAP when a more specific accounting standard does not apply.
- 13) Materiality can be affected by the dollar amount of an item, the nature of the item, or both.
- 14) According to the FASB's Statements of Financial Accounting Concepts, conservatism is a desired qualitative characteristic of accounting information.
- 15) Equity is a residual amount representing the owner's interest in the assets of the business.

- 16) Revenues are inflows or other enhancements of assets or settlements of liabilities from activities that constitute the entity's ongoing operations.
- 17) Gains or losses result, respectively, from the disposition of business assets for greater than, or less than, their book values.
- 18) Comprehensive income is another term for net income.
- 19) The FASB's conceptual framework lists relevance and timeliness as the two fundamental qualitative characteristics of decision-useful information.
- 20) The monetary unit assumption requires that items in financial statements be measured in a particular monetary unit.
- 21) The periodicity assumption requires that present value calculations take into account the number of compounding periods in each year.
- 22) Determining fair value by calculating the present value of future cash flows is a level 1 type of input.
- 23) The FASB's framework for measuring fair value doesn't change the situations in which fair value is used under current GAAP.
- 24) The revenue/expense approach emphasizes determining the appropriate amounts of revenue and expense in each reporting period.
- 25) The asset/liability approach emphasizes matching to determine what assets and liabilities should be reflected on the balance sheet.
- 26) In IFRS, the conceptual framework indicates appropriate accounting when a more specific accounting standard does not apply.
- 27) Political pressure never affects the IFRS standard-setting process.
- 28) External decision makers would not look primarily to financial accounting information to assist them in making decisions on:
- A) Granting credit.
 - B) Capital budgeting.
 - C) Selecting stocks.
 - D) Mergers and acquisitions.

29) Corporations issue their shares to the investing public in the:

	Primary market	Secondary market
a.	Yes	Yes
b.	No	Yes
c.	Yes	No
d.	No	No

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

30) The primary focus for financial accounting information is to provide information useful for:

	Investing decisions	Credit decisions
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

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

31) Which of the following groups is **not** among the external users for whom financial statements are prepared?

- A) Customers.
- B) Suppliers.
- C) Employees.
- D) Customers, suppliers, and employees are all external users of financial statements.

32) Which of the following is **not** true about net operating cash flow?

- A) It is the difference between cash receipts and cash disbursements from providing goods and services.
- B) It is a measure used in accrual accounting and is recognized as the best predictor of future operating cash flows.
- C) Over short periods, it may not be indicative of long-run cash-generating ability.
- D) It is easy to understand and all information required to measure it is factual.

33) Which of the following groups is **not** among financial intermediaries?

- A) Mutual fund managers.
- B) Financial analysts.
- C) CPAs.
- D) Credit rating organizations.

34) Which of the following was the first private-sector entity that set accounting standards in the United States?

- A) Accounting Principles Board.
- B) Committee on Accounting Procedure.
- C) Financial Accounting Standards Board.
- D) AICPA.

35) Which of the following does **not** apply to secondary markets?

- A) Transactions are important to the efficient allocation of resources in our economy.
- B) New resources are provided when shares of stock are sold by the corporation to the initial owners.
- C) Transactions help to establish market prices for additional shares that may be issued in the future.
- D) Many investors might be unwilling to provide resources to corporations if there is no available mechanism for the future sale of their stocks and bonds to others.

36) Porite Company recognizes revenue in the period in which it records an asset for the related account receivable, rather than in the period in which the account receivable is collected in cash. Porite's practice is an example of:

- A) Cash basis accounting.
- B) Accrual accounting.
- C) The matching principle.
- D) Economic entity.

37) Which of the following is **not** a potential benefit of accrual accounting, compared to cash-basis accounting?

- A) Timeliness.
- B) Better reflecting economic activity.
- C) Periodicity.
- D) Better matching of revenues and expenses.

38) In a recent annual report, Apple Computer reported the following in one of its disclosure notes: "Warranty Expense: The Company provides currently for the estimated cost for product warranties at the time the related revenue is recognized." This note exemplifies Apple's use of:

- A) Conservatism.
- B) Matching.
- C) Realization principle.
- D) Economic entity.

39) GAAP is an abbreviation for:

- A) Generally authorized accounting procedures.
- B) Generally applied accounting procedures.
- C) Generally accepted auditing practices.
- D) Generally accepted accounting principles.

- 40) The FASB issues accounting standards in the form of:
- A) Accounting Research Bulletins.
 - B) Accounting Standards Updates.
 - C) Financial Accounting Standards.
 - D) Financial Technical Bulletins.
- 41) Pronouncements issued by the Committee on Accounting Procedures:
- A) Dealt with specific accounting and reporting problems.
 - B) Were based on exposure drafts and public comment letters.
 - C) Originated from congressional studies and SEC directives.
 - D) Were the outcome of research studies and a theoretical framework.
- 42) The FASB's standard-setting process includes, in the correct order:
- A) Exposure draft, research, discussion paper, Accounting Standards Update.
 - B) Research, exposure draft, discussion paper, Accounting Standards Update.
 - C) Research, discussion paper, exposure draft, Accounting Standards Update.
 - D) Discussion paper, research, exposure draft, Accounting Standards Update.
- 43) Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002 (Sarbanes-Oxley)? The Act:
- A) Changed the entity responsible for setting auditing standards.
 - B) Increased corporate executive responsibility for financial statements.
 - C) Limited nonaudit services that can be performed by auditors for audit clients.
 - D) Changed the entity responsible for setting accounting standards.
- 44) CPAs are licensed by:
- A) The AICPA.
 - B) The SEC.
 - C) The federal government.
 - D) State governments.
- 45) Which of the following has the statutory authority to set accounting standards in the United States?
- A) FASB.
 - B) IRS.
 - C) SEC.
 - D) AICPA.
- 46) When a registrant company submits its annual filing to the SEC, it uses:
- A) Form 10-A.
 - B) Form 10-K.
 - C) Form 10-Q.
 - D) Form S-1.

47) The most likely important flaw leading to the demise of the APB was the perceived lack of:
A) Confidence.
B) Competence.
C) Independence.
D) Importance.

48) Accounting standard-setting has been characterized as:
A) A political process.
B) Using the scientific method.
C) Pure deductive reasoning.
D) Pure inductive reasoning.

49) The International Accounting Standards Board:
A) Was the predecessor to the IASC.
B) Can overrule the FASB when their policies disagree.
C) Promotes the use of high-quality, understandable global accounting standards.
D) Has its headquarters in Geneva.

50) Which of the following is **not** a provision of the Public Company Accounting Reform and Investor Protection Act of 2002?
A) Corporate executive accountability.
B) Auditor rotation.
C) Retention of work papers.
D) All of these answer choices are correct.

51) The primary professional organization for those accountants working in industry is the:
A) AAA.
B) AICPA.
C) IIA.
D) IMA.

52) In the Norwalk Agreement, the FASB and IASB pledged to:
A) Combine their organizations to form the BUSYB.
B) Make progress on specific MOU projects.
C) Achieve convergence by the year 2015.
D) Remove existing differences between their standards.

53) Which of the following is **not** a concern expressed by the SEC regarding IFRS adoption by the U.S.?
A) Need for the U.S. to have strong influence on the standard-setting process and ensure that standards meet U.S. needs.
B) The language barriers associated with cooperation among many countries in developing IFRS.
C) The high costs to companies of converting to IFRS.
D) The fact that many laws, regulations and private contracts reference U.S. GAAP.

54) The most political issue in the FASB's most recent deliberations and amendments to GAAP on stock options was:

- A) The negative effects on earnings of companies in the tech industry if they had to recognize expenses associated with stock compensation.
- B) The negative effects on assets of recognizing stock options in equity.
- C) The disclosure of stock compensation expense in the notes.
- D) Accounting for stock options that have not yet been granted to employees.

55) An important historical reason for the FASB reversing its positions when political pressures occur is:

- A) The cost of gathering data was prohibitive.
- B) The difficulties in measurement were too great.
- C) Companies withdraw financial support for the FASB.
- D) The SEC did not support the FASB position.

56) The most recent example of the political process at work in standard-setting is the heated debate that occurred on the issue of:

- A) Pension plan accounting.
- B) Accounting for postretirement benefits other than pensions.
- C) Accounting for business combinations.
- D) Accounting for fair values.

57) Independent auditors express an opinion on the:

- A) Fairness of financial statements.
- B) Accuracy of financial statements.
- C) Soundness of a company's future.
- D) Quality of a company's management.

58) The possibility that the capital markets' focus on periodic profits may tempt a company's management to bend or even break accounting rules to inflate reported net income is an example of:

- A) An ethical dilemma.
- B) An accounting theory issue.
- C) A technical accounting issue.
- D) An auditor's responsibility to inform the SEC.

59) One of the elements that many believe distinguishes a profession from other occupations is the acceptance of responsibility by its members for the interests of those it serves, which is often articulated in:

- A) Its conceptual framework.
- B) Its code of ethics.
- C) Federal laws.
- D) State laws.

- 60) *SFAC 8* of the conceptual framework focuses on:
- A) Objective and qualitative characteristics.
 - B) Presentation and disclosure.
 - C) Recognition and measurement.
 - D) Elements of financial statements.
- 61) The FASB's conceptual framework's qualitative characteristics of accounting information include:
- A) Historical cost.
 - B) Realization.
 - C) Faithful representation.
 - D) Full disclosure.
- 62) The FASB's conceptual framework's qualitative characteristics of accounting information include:
- A) Full disclosure.
 - B) Relevance.
 - C) Going concern.
 - D) Historical cost.
- 63) The conceptual framework's qualitative characteristic of relevance includes:
- A) Predictive value.
 - B) Verifiability.
 - C) Completeness.
 - D) Neutrality.
- 64) The conceptual framework's qualitative characteristic of faithful representation includes:
- A) Predictive value.
 - B) Neutrality.
 - C) Confirmatory value.
 - D) Timeliness.
- 65) *SFAC No.5* focuses on:
- A) Objectives of financial reporting.
 - B) Qualitative characteristics of accounting information.
 - C) Recognition and measurement concepts in accounting.
 - D) Elements of financial statements.
- 66) The main issue in the debate over accounting for employee stock options was:
- A) Which employees should receive options.
 - B) The amount of compensation expense that a company should recognize.
 - C) How many options should be granted to key executives.
 - D) The tax consequences of employee stock options.

67) A firm's comprehensive income always:

- A) Is the same as its net income.
- B) Is greater than its net income.
- C) Is less than its net income.
- D) Could be greater than or less than net income.

68) Net income equals:

- A) Assets minus liabilities.
- B) Revenues minus cost of goods sold.
- C) Revenues minus expenses.
- D) Cash receipts minus cash payments.

69) Enhancing qualitative characteristics of accounting information include each of the following **except**:

- A) Timeliness.
- B) Materiality.
- C) Comparability.
- D) Verifiability.

70) The enhancing qualitative characteristic of understandability means that information should be understood by:

- A) Those who are experts in the interpretation of financial information.
- B) Those who have a reasonable understanding of business and economic activities.
- C) Financial analysts.
- D) CPAs.

71) Fundamental qualitative characteristics of accounting information are:

- A) Relevance and comparability.
- B) Comparability and consistency.
- C) Faithful representation and relevance.
- D) Neutrality and consistency.

72) Enhancing qualitative characteristics of accounting information include:

- A) Relevance and comparability.
- B) Comparability and timeliness.
- C) Understandability and relevance.
- D) Neutrality and consistency.

73) Gains are:

- A) Inflows from selling a product or service to a customer.
- B) Increases in equity resulting from transfers of assets to the company from owners.
- C) Increases in equity from peripheral transactions of an entity.
- D) None of these answer choices are correct.

74) When there is agreement between a measure or description and the phenomenon it purports to represent, information possesses which characteristic?

- A) Verifiability.
- B) Predictive value.
- C) Faithful representation.
- D) Timeliness.

75) Surefeet Corporation changed its inventory valuation method. Which characteristic is jeopardized by this change?

- A) Comparability.
- B) Representational faithfulness.
- C) Consistency.
- D) Feedback value.

76) Elements of financial statements do **not** include:

- A) Monetary unit.
- B) Investments by owners.
- C) Comprehensive income.
- D) Losses.

77) The primary objective of financial accounting information is to provide useful information to:

- A) Management.
- B) Capital providers.
- C) Regulators.
- D) Academicians.

78) Of the following, the most important objective for financial reporting is to provide information useful for:

- A) Making decisions.
- B) Determining taxable income.
- C) Providing accountability.
- D) Increasing future profits.

79) A constraint on qualitative characteristics of accounting information is:

- A) Timeliness.
- B) Going concern.
- C) Neutrality.
- D) Cost-effectiveness.

80) According to the conceptual framework, verifiability implies:

- A) Legal evidence.
- B) Logic.
- C) Consensus.
- D) Legal verdict.

81) Maltec Corporation has started placing its quarterly financial statements on its web page, thereby reducing by 10 days the time to get information to investors and creditors. The qualitative concept improved is:

- A) Comparability.
- B) Consistency.
- C) Timeliness.
- D) Faithful representation.

82) Recognizing expected losses immediately, but deferring expected gains, is an example of:

- A) Materiality.
- B) Conservatism.
- C) Cost-effectiveness.
- D) Timeliness.

83) Change in equity from nonowner sources is:

- A) Comprehensive income.
- B) Revenues.
- C) Expenses.
- D) Gains and losses.

84) Which of the following Statements of Financial Accounting Concepts defines the 10 elements of financial statements?

- A) *SFAC 4.*
- B) *SFAC 3.*
- C) *SFAC 5.*
- D) *SFAC 6.*

85) Primecoat Corporation could disseminate its annual financial statements two days earlier if it shifted substantial human resources from other operations to the annual report project. Management decided the value of the earlier report was not worth the added commitment of resources. The concept demonstrated is:

- A) Timeliness.
- B) Materiality.
- C) Relevance.
- D) Cost-effectiveness.

86) Mega Loan Company has very stringent credit requirements and, accordingly, has negligible losses from uncollectible accounts. The company's independent accountants did not protest when, contrary to GAAP, the company recorded bad debt expense only when specific accounts were determined to be uncollectible, rather than use an allowance for uncollectible accounts. The concept demonstrated is:

- A) Comparability.
- B) Faithful representation.
- C) Cost-effectiveness.
- D) Materiality.

87) Four different competent accountants independently agree on the amount and method of reporting an economic event. The concept demonstrated is:

- A) Reliability.
- B) Comparability.
- C) Completeness.
- D) Verifiability.

88) An important argument in support of historical cost information is:

- A) Relevance.
- B) Predictive quality for future cash flows.
- C) Materiality.
- D) Verifiability.

89) The conceptual framework's recognition and measurement concepts recognize which one of the following as an assumption?

- A) Going concern.
- B) Historical cost.
- C) Full disclosure.
- D) Realization.

90) The assumption that in the absence of contrary information a business entity will continue indefinitely is the:

- A) Periodicity assumption.
- B) Entity assumption.
- C) Going concern assumption.
- D) Historical cost assumption.

91) If a company has declared bankruptcy, its financial statements likely violate:

- A) The fair value measurement approach.
- B) The present value measurement approach.
- C) The stable monetary unit assumption.
- D) The going concern assumption.

92) Which of the following is typically characterized as a principle, rather than an assumption?

- A) Periodicity.
- B) Monetary unit.
- C) Conservatism.
- D) Full disclosure.

93) Which of the following is **not** an identified valuation technique in GAAP regarding fair value measurement?

- A) Cost approach.
- B) Market approach.
- C) Cost-benefit approach.
- D) Income approach.

- 94) Disclosure notes to a company's financial statements:
- A) Are relatively unimportant facts that don't belong in the basic financial statements.
 - B) Document the source of financial statement facts, like literary footnotes.
 - C) Are an integral part of a company's financial statements.
 - D) Are irrelevant facts that are immaterial in amount.
- 95) A cause-and-effect relationship is implicit in:
- A) Realization.
 - B) Historical cost.
 - C) Matching.
 - D) The going concern assumption.
- 96) The full disclosure principle requires a balance between:
- A) Comparability and consistency.
 - B) Relevance and cost-effectiveness.
 - C) Reliability and neutrality.
 - D) Timeliness and predictive value.
- 97) The recognition of which of the following expenses exemplifies the application of matching expenses with the revenues they produced?
- A) President's salary.
 - B) Research and development.
 - C) Cost of goods sold.
 - D) Advertising.
- 98) Land was acquired in 2018 for a future building site at a cost of \$40,000. The assessed valuation for tax purposes is \$27,000, a qualified appraiser placed its value at \$48,000, and a recent firm offer for the land was for a cash payment of \$46,000. The land should be reported in the financial statements at:
- A) \$40,000.
 - B) \$27,000.
 - C) \$46,000.
 - D) \$48,000.
- 99) Revenue should not be recognized until:
- A) The seller has transferred goods or services to a customer.
 - B) Contracts have been signed and payment has been received.
 - C) Work has been performed and customer has been billed.
 - D) Collection has been made and warranties have expired.
- 100) Which of the following best demonstrates the full disclosure principle?
- A) The multi-step income statement.
 - B) The auditors' report.
 - C) The company's tax return.
 - D) Disclosure notes to financial statements.

101) The matching principle is:

- A) A valuation method.
- B) An expense recognition accounting principle.
- C) A cash basis reporting principle.
- D) An asset classification procedure.

102) Which of the following best describes the additional information that companies use to meet the requirements of full disclosure in financial statements?

- A) Parenthetical comments or modifying comments placed on the face of the financial statements.
- B) Disclosure notes conveying additional insights about company operations, accounting principles, contractual agreements, and pending litigation.
- C) Supplemental schedules and tables that report more detailed information than is shown in the primary financial statements.
- D) Comments on the face of the financial statements, and schedules, tables, and narrative disclosures in notes to the financial statements.

103) Ford Motor Company purchases services from suppliers on account and sells its products to distributors on short-term credit. As a result, do each of these events affect net income faster than they affect net operating cash flows?

	Purchase Services	Sell Products
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

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

104) The revenue/expense approach emphasizes:

- A) Recognition of revenues.
- B) Recognition of expenses.
- C) The income statement.
- D) All of these answer choices are correct.

105) The asset/liability approach emphasizes:

- A) Whether amounts on the balance sheet meet the definitions of assets and liabilities.
- B) A close relation between the balance sheet and the statement of cash flows.
- C) The distinction between net assets and gross assets.
- D) All of these answer choices are correct.

106) Under IFRS, the role of the conceptual framework:

- A) Primarily involves guiding standard setters to make sure that standards are consistent with each other.
- B) Includes serving as a guide for practitioners when a specific standard does not apply.
- C) Is less important than in U.S. GAAP.
- D) Has resulted primarily from a convergence with U.S. GAAP.

107) Under IFRS, the conceptual framework:

- A) Emphasizes the overarching concept of the financial statements providing a "true and fair representation" of the company.
- B) Is not designed to provide guidance to standard setters, but rather only to practitioners.
- C) Is not designed to provide guidance to practitioners, but rather only to standard setters.
- D) Specifies a set of rules that determine what constitutes a true IFRS standard.

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Pertinent to the decision at hand.
- B) Information confirms expectations.
- C) Decrease in equity due to transfers to owners.
- D) Information is useful in projecting cash flows.
- E) Information is available prior to the decision.

108) Predictive value

109) Relevance

110) Timeliness

111) Distribution to owners

112) Confirmatory value

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Results if an asset is sold for more than book value.
- B) Contains all information necessary for faithful representation.
- C) Concerns the decision-making impact of both the amount and nature of an item.
- D) Along with relevance, a fundamental decision-specific quality.
- E) The change in equity from nonowner transactions.

113) Gain

114) Materiality

115) Completeness

116) Comprehensive income

117) Faithful representation

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Accounting information should be unbiased.
- B) Important in analysis between firms.
- C) Applying the same accounting practices over time.
- D) Considers the value of using information relative to cost of providing it.
- E) The decision to include an amount in the financial statements.

118) Neutrality

119) Comparability

120) Consistency

121) Cost-effectiveness

122) Recognition

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Implies consensus among different observers.
- B) Ignores the possibility of inflation.
- C) Requires reporting the financial life of an entity in discrete time frames.
- D) Assumes all transactions can be identified with a particular entity.
- E) Assumes an entity will continue to operate indefinitely.

123) Monetary unit assumption

124) Verifiability

125) Economic entity assumption

126) Going concern assumption

127) Periodicity assumption

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Discounts future cash flows.
- B) Basis of measurement for fixed assets.
- C) Reporting of all information that could affect decisions.
- D) Occurs when goods or services are transferred to the customer.
- E) Application of GAAP sometimes avoided under this constraint.

128) Historical cost

129) Materiality

130) Revenue recognition

131) Full disclosure

132) Present value

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Undermines representational faithfulness by being inconsistent with neutrality.
- B) Its *EITF Issues* are GAAP when entered in the Accounting Standards Codification.
- C) It established GAAP before the FASB.
- D) It is the national organization for CPAs in the United States.
- E) It has the authority to set U.S. accounting standards.

133) Financial Accounting Standards Board

134) Accounting Principles Board

135) Conservatism

136) American Institute of CPAs (AICPA)

137) Securities and Exchange Commission

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Cash dividends.
- B) Claims of creditors against the assets of a business.
- C) Net assets.
- D) Outflows of resources to generate revenues.
- E) Transfers of resources in exchange for common and preferred stock.

138) Expenses

139) Equity

140) Distributions to owners

141) Investments by owners

142) Liabilities

Listed below are five terms followed by a list of phrases that describe or characterize each of the terms. Match each phrase with the correct term.

- A) Net outflows from peripheral transactions.
- B) Probable future economic benefits controlled by an entity.
- C) All changes in equity except owner transactions.
- D) Increases in equity from the sale of goods and/or services.
- E) Results if an asset is sold for more than book value.

143) Losses

144) Assets

145) Revenues

146) Comprehensive income

147) Gains

Listed below are ten organizations followed by a list of phrases that describe or characterize the organizations. Match each phrase with the correct organization.

- A) Advises the FASB
- B) National organization of certified public accountants.
- C) Sets accounting standards in the United States.
- D) Provides timely responses to financial reporting issues.
- E) The FASB's parent organization.
- F) FASB's predecessor.
- G) Primary national organization of accountants working in industry.
- H) Regulates the financial reporting for public companies.
- I) Establishes auditing standards in the US for public companies.
- J) Sets global accounting standards.

148) SEC

149) FASB

150) IASB

151) AICPA

152) EITF

153) PCAOB

154) IMA

155) FASAC

156) APB

157) FAF

Use this information to answer the following questions:

Alpaca Corporation had revenues of \$200,000 in its first year of operations. The company has not collected on \$20,000 of its sales and still owes \$25,000 on \$70,000 of merchandise it purchased. The company had no inventory on hand at the end of the year. The company paid \$15,000 in salaries. Owners invested \$20,000 in the business and \$20,000 was borrowed on a five-year note. The company paid \$2,000 in interest that was the amount owed for the year, and paid \$6,000 for a two-year insurance policy on the first day of business. Alpaca has an effective income tax rate of 40%.

158) Compute net income for the first year for Alpaca Corporation.

159) Compute the cash balance at the end of the first year for Alpaca Corporation.

Use this information to answer the following questions:

Tri Fecta, a partnership, had revenues of \$360,000 in its first year of operations. The partnership has not collected on \$35,000 of its sales and still owes \$40,000 on \$150,000 of merchandise it purchased. There was no inventory on hand at the end of the year. The partnership paid \$25,000 in salaries. The partners invested \$40,000 in the business and \$25,000 was borrowed on a five-year note. The partnership paid \$3,000 in interest that was the amount owed for the year and paid \$8,000 for a two-year insurance policy on the first day of business.

160) Compute net income for the first year for Tri Fecta.

161) Compute the cash balance at the end of the first year for Tri Fecta.

Use this information to answer the following questions:

The following information (\$ in millions) comes from a recent annual report of Amazon.com, Inc.:

Net sales	\$10,711
Total assets	4,363
End of year balance in cash	1,022
Total stockholders' equity	431
Gross profit (Sales – Cost of Sales)	2,456
Net increase in cash for the year	9
Operating expenses	2,067
Net operating cash flow	702
Other income (expense), net	(12)

162) Compute Amazon's balance in cash at the beginning of the year.

163) Compute Amazon's total liabilities at the end of the year.

164) Compute Amazon's cost of goods sold for the year.

165) Compute the income before income tax for Amazon.

166) Compare net income (loss) for the year to net cash flow from operating activities. Why are these amounts different? Briefly explain.

167) For each of the following situations, state whether you agree or disagree with the financial reporting practice employed, and briefly explain the reason for your answer.

1. Cantor Corporation's accountant increased the book value of a patent from its original cost of \$1 million to its recently appraised value of \$6 million.
2. Stanton Corporation paid for the personal travel of its chief financial officer and charged travel expense.
3. At the end of its 2018 fiscal year, Dower, Inc., received an order from a customer for \$60,000. The merchandise will ship early in 2019. Because the sale was made to a long-time customer and the invoice was paid in 2018, the controller recorded the sale in 2018.
4. In the middle of its 2018 fiscal year, Sanguinetti, Inc. paid \$12,000 to its insurance company for one-year comprehensive insurance coverage. Sanguinetti recorded the entire expenditure as an expense in 2018.
5. The Churchill Pharmaceutical Company included a note in its financial statements that described a pending lawsuit against the company.
6. The Daily Corporation, a company whose securities are publicly traded, prepares monthly, quarterly, and annual financial statements for internal use but disseminates to external users only the annual financial statements.

168) Identify or define the following terms: economic entity, going concern.

169) List the four financial statements most frequently provided to external users.

170) Explain and show an example of how the FASB's conceptual framework is needed in formulating standards on controversial topics.

171) What is the SEC and how is it involved with accounting standard-setting?

172) What is the EITF and what is its purpose?

173) Accounting standard-setting has been characterized as a political process. Discuss this proposition giving an example.

174) What are the key provisions of the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002?

175) What is the value of a company having financial statements audited by an independent auditor?

176) What provisions did the Public Company Accounting Reform and Investor Protection (Sarbanes-Oxley) Act of 2002 make for performance of nonaudit services by an audit firm?

- 177) Briefly describe how materiality is featured in the conceptual framework.
- 178) Give an example of a violation of the stable monetary unit assumption. How would it affect the quality of financial statement information?
- 179) Identify or define the following terms: periodicity, monetary unit.
- 180) Identify or define the following term: historical cost.
- 181) How does GAAP define fair value?
- 182) Over time, accounting standards have developed to reflect changes in the business world as well as changes in our ability to account for such changes. Using the example of marking assets and liabilities to their fair value, explain why you would expect accounting standards to change.
- 183) List and briefly describe the five measurement attributes used commonly in current GAAP.
- 184) List and briefly describe the three levels of inputs described in the fair-value measurement hierarchy.
- 185) Contrast the asset/liability and revenue/expense approaches to accounting standard setting.
- 186) Contrast the role of the conceptual framework in U.S. GAAP and IFRS.