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FINAL EXAM

Course # 171031
Accounting Changes And Error Analysis

based on the electronic .pdf file(s):

Accounting Changes And Error Analysis
by: Delta CPE, 2014, 60 pages

4 CPE Credit Hours
Accounting & Auditing

This exam sheet is made available for your convenience in answering questions while offline. Please note that you will still need to enter your answers on the online exam sheet for grading.

Instructions are provided at the end of this document.

Chapter 0 - Course Material

1. Accounting changes are often made and the monetary impact is reflected in the financial statements of a company even though, in theory, this may be a violation of the accounting concept of

   ______ Materiality.

   ______ Consistency.

   ______ Conservatism.

   ______ Objectivity.

2. A transaction that is unusual in nature and infrequent in occurrence should be reported separately as a component of income

   ______ After cumulative effect of accounting changes and before discontinued operations.

   ______ Before cumulative effect of accounting changes and after discontinued operations.

   ______ After cumulative effect of accounting changes and after discontinued operations.

   ______ Before cumulative effect of accounting changes and before discontinued operations.

3. Which of the following is NOT treated as a change in accounting principle?

   ______ A change from LIFO to FIFO for inventory valuation

   ______ A change to a different method of depreciation for plant assets

   ______ A change from full-cost to successful efforts in the extractive industry

   ______ A change from completed-contract to percentage-of-completion

4. Which of the following is NOT a retrospective-type accounting change?

   ______ Completed-contract method to the percentage-of-completion method for long-term contracts

   ______ LIFO method to the FIFO method for inventory valuation

   ______ Sum-of-the-years'-digits method to the straight-line method

   ______ "Full cost" method to another method in the extractive industry

5. Which of the following is accounted for as a change in accounting principle?

   ______ A change in the estimated useful life of plant assets.

   ______ A change from the cash basis of accounting to the accrual basis of accounting.

   ______ A change from expensing immaterial expenditures to deferring and amortizing them as they become material.

   ______ A change in inventory valuation from average cost to FIFO.

6. A company changes from straight-line to an accelerated method of calculating depreciation, which will be similar to the method used for tax purposes. The entry to record this change should include a

   ______ Credit to Accumulated Depreciation.

   ______ Debit to Retained Earnings in the amount of the difference on prior years.

   ______ Debit to Deferred Tax Asset.

______ Credit to Deferred Tax Liability.

7. Which of the following disclosures is required for a change from sum-of-the-years-digits to straight-line?

   ______ The cumulative effect on prior years, net of tax, in the current retained earnings statement

   ______ Restatement of prior years' income statements

   ______ Recomputation of current and future years' depreciation

   ______ All of these are required.

8. A company changes from percentage-of-completion to completed-contract, which is the method used for tax purposes. The entry to record this change should include a

   ______ Debit to Construction in Process.

   ______ Debit to Loss on Long-term Contracts in the amount of the difference on prior years, net of tax.

   ______ Debit to Retained Earnings in the amount of the difference on prior years, net of tax.

   ______ Credit to Deferred Tax Liability.

9. Which of the following disclosures is required for a change from LIFO to FIFO?

   ______ The cumulative effect on prior years, net of tax, in the current retained earnings statement

   ______ The justification for the change

   ______ Restated prior year income statements

   ______ All of these are required.

10. Stone Company changed its method of pricing inventories from FIFO to LIFO. What type of accounting change does this represent?

    ______ A change in accounting estimate for which the financial statements for prior periods included for comparative purposes should be presented as previously reported.

    ______ A change in accounting principle for which the financial statements for prior periods included for comparative purposes should be presented as previously reported.

    ______ A change in accounting estimate for which the financial statements for prior periods included for comparative purposes should be restated.

    ______ A change in accounting principle for which the financial statements for prior periods included for comparative purposes should be restated.

11. Which type of accounting change should always be accounted for in current and future periods?

    ______ Change in accounting principle

    ______ Change in reporting entity

    ______ Change in accounting estimate

    ______ Correction of an error

12. When a company decides to switch from the double-declining balance method to the straight-line method, this change should be handled as a

    ______ Change in accounting principle.

    ______ Change in accounting estimate.

    ______ Prior period adjustment.

    ______ Correction of an error.

13. The estimated life of a building that has been depreciated 30 years of an originally estimated life of 50 years has been revised to a remaining life of 10 years. Based on this information, the

accountant should

- ______ Continue to depreciate the building over the original 50-year life.
- ______ Depreciate the remaining book value over the remaining life of the asset.
- ______ Adjust accumulated depreciation to its appropriate balance, through net income, based on a 40-year life, and then depreciate the adjusted book value as though the estimated life had always been 40 years.
- ______ Adjust accumulated depreciation to its appropriate balance through retained earnings, based on a 40-year life, and then depreciate the adjusted book value as though the estimated life had always been 40 years.

14. Which of the following statements is correct?

- ______ Changes in accounting principle are always handled in the current or prospective period.
- ______ Prior statements should be restated for changes in accounting estimates.
- ______ A change from expensing certain costs to capitalizing these costs due to a change in the period benefited, should be handled as a change in accounting estimate.
- ______ Correction of an error related to a prior period should be considered as an adjustment to current year net income.

15. Which of the following describes a change in reporting entity?

- ______ A company acquires a subsidiary that is to be accounted for as a purchase.
- ______ A manufacturing company expands its market from regional to nationwide.
- ______ A company divests itself of a European branch sales office.
- ______ Changing the companies included in combined financial statements.

16. Presenting consolidated financial statements this year when statements of individual companies were presented last year is

- ______ A correction of an error.
- ______ An accounting change that should be reported prospectively.
- ______ An accounting change that should be reported by restating the financial statements of all prior periods presented.
- ______ Not an accounting change.

17. An example of a correction of an error in previously issued financial statements is a change

- ______ From the FIFO method of inventory valuation to the LIFO method.
- ______ In the service life of plant assets, based on changes in the economic environment.
- ______ From the cash basis of accounting to the accrual basis of accounting.
- ______ In the tax assessment related to a prior period.

18. Counterbalancing errors do NOT include

- ______ Errors that correct themselves in two years.
- ______ Errors that correct themselves in three years.
- ______ An understatement of purchases.
- ______ An overstatement of unearned revenue.

19. A company using a perpetual inventory system neglected to record a purchase of merchandise on account at year-end. This merchandise was omitted from the year-end physical count. How will these errors affect assets, liabilities, and stockholders' equity at year-end and net income for the year?

- ______ Assets = No Effect; Liabilities = Understate; Stockholders' Equity = Overstate; and Net Income = Overstate.
- ______ Assets = No Effect; Liabilities = Overstate; Stockholders' Equity = Understate; and Net Income = Understate.
- ______ Assets = Understate; Liabilities = Understate; Stockholders' Equity = No effect; and Net Income = No effect.
- ______ Assets = Understate; Liabilities = No effect; Stockholders' Equity = Understate; and Net Income = Understate.

20. If, at the end of a period, a company erroneously excluded some goods from its ending inventory and also erroneously did not record the purchase of these goods in its accounting records, these errors would cause

- ______ The ending inventory and retained earnings to be understated.
- ______ The ending inventory, cost of goods sold, and retained earnings to be understated.
- ______ No effect on net income, working capital, and retained earnings.
- ______ Cost of goods sold and net income to be understated.

21. How should the effect of a change in accounting estimate be accounted for?

- ______ By restating amounts reported in financial statements of prior periods.
- ______ By reporting pro forma amounts for prior periods.
- ______ As a prior-period adjustment to beginning retained earnings.
- ______ In the period of change and future periods if the change affects both.

22. On January 1, 2X12, Frost Corp. changed its inventory method to FIFO from LIFO for both financial and income tax reporting purposes. The change resulted in an $800,000 increase in the January 1, 2X12 inventory. Assume that the income tax rate for all years is 30%. The cumulative effect of the accounting change should be reported by Frost in its 2X12

- ______ Retained earnings statement as a $560,000 addition to the beginning balance.
- ______ Income statement as a $560,000 cumulative effect of accounting change.
- ______ Retained earnings statement as an $800,000 addition to the beginning balance.
- ______ Income statement as an $800,000 cumulative effect of accounting change.

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