

FINANCIAL ACCOUNTING & REPORTING

CPA2901US1-39

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ABOUT UPDATING SUPPLEMENT VERSION 39.1

This supplement is designed to bring the very latest information to candidates using our products in preparation for the CPA exam in the July-August 2010, and later, exam windows. Candidates with the 39th edition CPA Review textbook or the corresponding Version 13 series software will find the information in updating supplement Version 39.1 more than adequate for these exam windows.

When new information first becomes available, the examiners tend to test new or changed portions of concepts lightly. Coverage of information after that point may increase if it is in a heavily tested area. Do not fall into the trap of attaching undue significance to new information merely because it is new.

Accounting and auditing pronouncements are eligible to be tested on the CPA exam in the testing window beginning six months after a pronouncement's *effective* date, unless early application is permitted. When early application is permitted, a new pronouncement may be tested in the window beginning 6 months after the *issuance* date. In this case, *both* the previous and the new pronouncements can be tested until the previous pronouncement has been superseded.

Remember, with the information and techniques in our material, passing the exam is an attainable goal. ***Adhere to a reasonable study plan—and pass the first time!***

STUDY OPTIONS AVAILABLE TO CANDIDATES

As every candidate's needs are different, Bisk Education offers a variety of CPA Review formats and packages that are guaranteed* to help you pass the CPA exam on your next sitting. Options include: our Online CPA Review with structured Internet classes and our self-study CPA Review utilizing multimedia CD-ROM software, video lectures, audio lectures, and books.

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OTHER SOURCES OF INFORMATION FOR CANDIDATES

Candidates choosing to use previous editions of our books must accept responsibility for adequately updating their materials and should consider the strain that this will add to the already time-consuming process of studying for the exam. Candidates with the 37th and earlier editions are strongly encouraged to purchase new materials. Please contact a customer service representative at 1-800-280-9718.

Candidates with the 38th edition CPA Review textbook or corresponding Version 12 series software will also need FAR Updating Supplement Version 38.3. FAR Updating Supplement Version 38.3 contains summaries of FAS 164, FAS 165, FAS 166, FAS 167, FAS 168, ASU 2009-1 and ASU 2009-2. The content from these pronouncements deemed appropriate for CPA Examination review is integrated into the 39th edition.

FAR Updating Supplement Version 38.3 also contains information on the new Content and Skill Specification Outlines (CSOs/SSOs) for the Uniform CPA Examination, FASB Accounting Standards Codification (ASC), FASB Accounting Standards Updates (ASUs) and the new CBT-e Uniform CPA Examination that will be used beginning in January, 2011.

IMPORTANT ANNOUNCEMENTS

CBT-e Implementation Date

On September 25, 2009, the American Institute of Certified Public Accountants (AICPA) Board of Examiners (BOE) announced the date of January 1, 2011 for CBT-e. CBT-e is, in effect, a new Uniform CPA Examination. The CPA Examination has been transformed in structure, content, and format and will be supported by enhanced technology. The major changes include the transfer of written communication tasks to the Business and Concepts (BEC) section, introduction of new Task-Based Simulations (TBS) instead of Case-Based Simulations (CBS), implementation of the new Content and Skill Specification Outlines (CSOs/SSOs) which includes testing of International Financial Reporting Standards (IFRS), and a new release of authoritative literature (based on codified FASB Accounting Standards) with a new research task format. The Fall 2009 and Spring 2010 issues of *The Uniform CPA Examination Alert* contains additional information about the changes that CBT-e will bring. The two previous issues of the newsletter include information about the development of the CBT-e initiative. These issues are available on the CPA Examination website, www.cpa-exam.org.

CBT-e Structure, Time Allocations, and Scoring Weights

On November 30, 2009, the American Institute of Certified Public Accountants (AICPA) Board of Examiners (BOE) provided information about the section structure, section time allocation, and scoring weights for the new CBT-e Uniform CPA Examination.

Section Structure

The CBT-e changes in the configuration of examination sections are based on the decisions of the AICPA Board of Examiners (BOE). In the spring of 2008, the BOE reviewed all responses to the Invitation to Comment (ITC) on Proposed CPA Examination Improvements, and approved the CBT-e project after defining its scope. At that time, decisions were made (1) to move the testing of written communication to the Business Environment and Concepts (BEC) section, and (2) to replace simulations in the current format with short Task-Based Simulations (TBS) in Auditing and Attestation (AUD), Financial Accounting and Reporting (FAR), and Regulation (REG). In March 2009, the BOE decided to incorporate the planned authoritative literature release and the introduction of a new research task format into the CBT-e schedule.

Section Time Allocations

On September 18, 2009, the BOE approved recommendations from its Psychometric Oversight Committee (POC) on section time allocations to be implemented with the launch of CBT-e. This decision will affect two examination sections—the testing time for BEC will increase by a half hour and the testing time for AUD will decrease by a half hour. The total testing time for all four sections will remain unchanged at 14 hours.

Scoring Weights

At the recommendation of the POC, on September 18, 2009 the BOE also approved new scoring weights—the value to be attributed to each item type (multiple-choice questions [MCQs], Task-Based Simulations [TBS], and written communication tasks) in the total score. This decision will affect all four examination sections. In AUD, FAR, and REG, MCQs will account for 60% and TBS for 40% of the total score; in BEC, MCQs will account for 85% and written communication tasks for 15% of the total score.

The recommendations presented by the POC to the BOE were based on extensive research designed to measure the impact of CBT-e changes on the CPA Examination. Among the topics studied was the reliability (consistency) of each examination section under both current and new test structures and scoring weights. The proportion of time candidates spend on each item format was also analyzed, and estimates were developed on the time candidates are likely to spend on each item format after CBT-e is in effect. The proportions attributed to each skill area in the Skill Specification Outline (SSO), a product of the 2008 Practice Analysis study, were used in developing the scoring weight recommendations.

The following tables show the changes that will be implemented on January 1, 2011 in section structure, testing time allocations, and scoring weights.

Uniform CPA Examination Section Structure and Time Allocations

CBT-e Launch Date: January 1, 2011

Auditing and Attestation (AUD)

Current Structure	CBT-e Structure
<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 90 questions • 2 simulations in current (long) format • 2 written communication tasks 	<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 90 questions • 1 testlet containing 7 short task-based simulations with the research question in a new format
Current testing time: 4.5 hours	CBT-e testing time: 4 hours

Business Environment and Concepts (BEC)

Current Structure	CBT-e Structure
<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 90 questions 	<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 72 questions • 3 written communication tasks on BEC topics
Current testing time: 2.5 hours	CBT-e testing time: 3 hours

Financial Accounting and Reporting (FAR)

Current Structure	CBT-e Structure
<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 90 questions • 2 simulations in current (long) format • 2 written communication tasks 	<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 90 questions • 1 testlet containing 7 short task-based simulations with the research question in a new format
Current testing time: 4 hours	CBT-e testing time: 4 hours

Regulation (REG)

Current Structure	CBT-e Structure
<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 72 questions • 2 simulations in current (long) format • 2 written communication tasks 	<ul style="list-style-type: none"> • 3 multiple-choice question testlets containing a total of 72 questions • 1 testlet containing 6 short task-based simulations with the research question in a new format
Current testing time: 3 hours	CBT-e testing time: 3 hours

AICPA Web Site

In May, 2010, the AICPA examiners changed their web site to <http://www.aicpa.org/BecomeACPA/CPAExam/Pages/CPAExam.aspx>. Browsers set to www.cpa-exam.org are re-directed to the new address.

RECENT FASB PRONOUNCEMENTS

ASU No. 2009-3, *SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins* (Issued 08/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On August 24, 2009, the FASB issued Accounting Standards Update No. 2009-03, *SEC Update—Amendments to Various Topics Containing SEC Staff Accounting Bulletins*.

This Codification Update represents technical corrections to various Topics containing SEC Staff Accounting bulletins to update cross-references to Codification text.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-4, *Accounting for Redeemable Equity Instruments—Amendments to Section 480-10-S99* (Issued 08/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On August 26, 2009, the FASB issued Accounting Standards Update No. 2009-04, *Accounting for Redeemable Equity Instruments—Amendments to Section 480-10-S99*.

This Codification Update represents an update to Section 480-10-S99, Distinguishing Liabilities from Equity, per EITF Topic D-98, Classification and Measurement of Redeemable Securities.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-5, *Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value* (Issued 08/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On August 26, 2009, the FASB issued Accounting Standards Update No. 2009-05, *Fair Value Measurements and Disclosures (Topic 820)—Measuring Liabilities at Fair Value*.

This Codification Update provides amendments to Subtopic 820-10, Fair Value measurements and Disclosures—Overall, for the fair value measurement of liabilities. This Update provides clarification on the techniques required to be used to measure fair value in circumstances in which a quoted price in an active market for the identical liability is not available.

The amendments in this Update also clarify that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability.

The amendments in this Update also clarify that both a quoted price in an active market for the identical liability at the measurement date and the quoted price for the identical liability when traded as an asset in an active market when no adjustments to the quoted price of the asset are required are Level 1 fair value measurements.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2009-6, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities* (Issued 09/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On September 2, 2009, the FASB issued Accounting Standards Update No. 2009-06, *Income Taxes (Topic 740)—Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*.

This Codification Update provides amendments which provide implementation guidance about how to apply the standards for uncertainty in income taxes addressing three situations:

1. Whether the income tax paid by an entity is attributable to the entity or its owners.
2. What constitutes a tax position for a pass-through entity or a tax-exempt not-for-profit entity.
3. How accounting for uncertainty in income taxes should be applied when a group of related entities comprise both taxable and nontaxable entities.

In addition, the amendments eliminate the disclosures required by paragraph 740-10-50-15(a) through (b) for nonpublic entities.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-7, *Accounting for Various Topics—Technical Corrections to SEC Paragraphs* (Issued 09/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On September 15, 2009, the FASB issued Accounting Standards Update No. 2009-07, *Accounting for Various Topics—Technical Corrections to SEC Paragraphs*.

This Codification Update represents technical corrections to various Topics containing SEC guidance based on external comments received.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-8, *Earnings Per Share—Amendments to Section 260-10-S99* (Issued 09/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On September 16, 2009, the FASB issued Accounting Standards Update No. 2009-08, *Earnings Per Share—Amendments to Section 260-10-S99*.

This Codification Update represents technical corrections to Topic 260-10-S99, Earnings Per Share, based on EITF Topic D-53, *Computation of Earnings Per share for a Period that Includes a Redemption or an Induced Conversion of a Portion of a Class of Preferred Stock* and EITF Topic D-42, *The Effect of the Calculation of Earnings per Share for the Redemption or Induced Conversion of Preferred Stock*.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-9, *Accounting for Investments—Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99* (Issued 09/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On September 17, 2009, the FASB issued Accounting Standards Update No. 2009-09, *Accounting for Investments: Equity Method and Joint Ventures and Accounting for Equity-Based Payments to Non-Employees—Amendments to Sections 323-10-S99 and 505-50-S99*.

This Accounting Standards Update represents a correction to Section 323-10-S99-4, *Accounting by an Investor for Stock-Based Compensation Granted to Employees of an Equity method Investee*. Section 323-10-S99-4 was originally entered into the Codification incorrectly.

Additionally, it adds observer comment *Accounting Recognition for Certain Transactions Involving Equity Instruments Granted to Other Than Employees* to the Codification.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-10, *Financial Services—Broker and Dealers: Investments—Other—Amendments to Subtopic 940-325* (Issued 09/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On September 18, 2009, the FASB issued Accounting Standards Update No. 2009-10, *Financial Services—Broker and Dealers: Investments—Other—Amendments to Subtopic 940-325*.

This Accounting Standards Update codifies the Observer comment in paragraph 17 of EITF 02-3, *Issues Involved in accounting for Derivative Contracts Held for Trading Purposes and Contracts Involved in Energy Trading and Risk Management*.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-11, *Extractive Activities—Oil and Gas—Amendments to Section 932-10-S99* (Issued 09/09)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On September 18, 2009, the FASB issued Accounting Standards Update No. 2009-11, *Extractive Activities—Oil and Gas—Amendments to Section 932-10-S99*.

This Accounting Standards Update represents a technical correction to the SEC Observer comment in EITF 90-22, "Accounting for Gas-Balancing Arrangements."

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820)—Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)* (Issued 09/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On September 30, 2009, the FASB issued Accounting Standards Update No. 2009-12, *Fair Value Measurements and Disclosures (Topic 820)—Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*.

This Codification Update provides amendments to Subtopic 820-10, Fair Value Measurements and Disclosures—Overall, for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). The amendments in this Update permit, as a practical expedient, a reporting entity to measure the fair value of an investment that is within the scope of the amendments in this Update on the basis of the net asset value per share of the investment (or its equivalent) if the net asset value of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date, including measurement of all or substantially all of the underlying investments of the investee in accordance with Topic 820.

The amendments in this Update also require disclosures by major category of investment about the attributes of investments within the scope of the amendments in this Update, such as the nature of any restrictions on the investor's ability to redeem its investments at the measurement date, any unfunded commitments and the investment strategies of the investees.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2009-13, *Revenue Recognition (Topic 650)—Multiple-Deliverable Revenue Arrangement—a consensus of the FASB Emerging Issues Task Force* (Issued 10/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On October 7, 2009, the FASB issued Accounting Standards Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements—a consensus of the FASB Emerging Issues Task Force*.

This Update provides amendments to the criteria in Subtopic 605-25 for separating consideration in multiple-deliverable arrangements. As a result of those amendments, multiple-deliverable arrangements will be separated in more circumstances than under existing U.S. GAAP. The amendments in this Update establish a selling price hierarchy for determining the selling price of a deliverable. The selling price used for each deliverable will be based on vendor-specific objective evidence if available, third-party evidence if vendor-specific objective evidence is not available, or estimated selling price if neither vendor-specific objective evidence nor third-party evidence is available. The amendments in this Update also will replace the term fair value in the revenue allocation guidance with selling price to clarify that the allocation of revenue is based on entity-specific assumptions rather than assumptions of a marketplace participant.

The amendments in this Update will eliminate the residual method of allocation and require that arrangement consideration be allocated at the inception of the arrangement to all deliverables using the relative selling price method. The relative selling price method allocates any discount in the arrangement proportionally to each deliverable on the basis of each deliverable's selling price.

The amendments in this Update will require that a vendor determine its best estimate of selling price in a manner that is consistent with that used to determine the price to sell the deliverable on a standalone basis. The amendments in this Update do not prescribe any specific methods that vendors must use to accomplish this objective.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2009-14, *Software (Topic 985)—Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force (Issued 10/09)*

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On October 7, 2009, the FASB issued Accounting Standards Update No. 2009-14, *Software (Topic 985)—Certain Revenue Arrangements That Include Software Elements—a consensus of the FASB Emerging Issues Task Force*.

The amendments in this Update change the accounting model for revenue arrangements that include both tangible products and software elements. Tangible products containing software components and non-software components that function together to deliver the tangible product's essential functionality are no longer within the scope of the software revenue guidance in Subtopic 985-605. In addition, the amendments in this Update require that hardware components of a tangible product containing software components always be excluded from the software revenue guidance. In that regard, the amendments in this Update provide additional guidance on how to determine which software, if any, relating to the tangible product also would be excluded from the scope of the software revenue guidance.

If the software contained on the tangible product is essential to the tangible product's functionality, the software is excluded from the scope of the software revenue guidance. This exclusion includes essential software that is sold with or embedded within the product and undelivered software elements that relate to that tangible product's essential software. For example, if a vendor sells a computer that includes an operating system that is deemed essential to that computer's functionality and also sells postcontract customer support services for that operating system, both the operating system and the support services in the arrangement are excluded from the scope of the software revenue guidance.

The amendments in this Update also provide guidance on how a vendor should allocate arrangement consideration to deliverables in an arrangement that includes both tangible products and software. If a tangible product contains software that is not essential to the product's functionality, that nonessential software and any other deliverables within the arrangement (other than the nonsoftware components of the tangible product) that relate to that nonessential software are within the scope of the software revenue guidance in Subtopic 985-605. If an undelivered element relates to a deliverable within the scope of Subtopic 985-605 and a deliverable excluded from the scope of Subtopic 985-605, the undelivered element shall be bifurcated into a software deliverable and a nonsoftware deliverable. The software deliverable is within the scope of Subtopic 985-605 and the nonsoftware deliverable is not within the scope of Subtopic 985-605. The amendments also provide further guidance on how to allocate arrangement consideration when an arrangement includes deliverables both included and excluded from the scope of the software revenue guidance.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing (Issued 10/09)*

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On October 13, 2009, the FASB issued Accounting Standards Update No. 2009-15, *Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing*.

This Update provides amendments to Subtopic 470-20 on accounting and reporting guidance for debt (and certain preferred stock) with specific conversion features and other options to include own-share lending arrangements issued in contemplation of convertible debt issuance.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2009-16, *Transfers and Servicing (Topic 860)*—Accounting for Transfers of Financial Assets (Issued 12/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On December 23, 2009, the FASB issued Accounting Standards Update No. 2009-16, *Transfers and Servicing (Topic 860)*—Accounting for Transfers of Financial Assets.

The amendments in this Update to the Accounting Standards Codification are the result of FASB Statement No. 166, *Accounting for Transfers of Financial Assets*. That Statement was issued by the Board on June 12, 2009.

The Transfers and Servicing Topic establishes accounting and reporting standards for transfers and servicing of financial assets. It also establishes the accounting for transfers of servicing rights.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2009-17, *Consolidations (Topic 810)*—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities (Issued 12/09)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On December 23, 2009, the FASB issued Accounting Standards Update No. 2009-17, *Consolidations (Topic 810)*—Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities.

The amendments in this Update to the Accounting Standards Codification are the result of FASB Statement No. 167, *Amendments to FASB Interpretation No. 46(R)*. That Statement was issued by the Board on June 12, 2009.

The Variable Interest Entities Subsections clarify the application of the General Subsections to certain legal entities in which equity investors do not have sufficient equity at risk for the legal entity to finance its activities without additional subordinated financial support or as a group, the holders of the equity investment at risk lack any one of three certain characteristics.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-01, *Equity (Topic 505)*—Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force (Issued 01/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On January 5, 2010, the FASB issued Accounting Standards Update No. 2010-01, *Equity (Topic 505)*—Accounting for Distributions to Shareholders with Components of Stock and Cash—a consensus of the FASB Emerging Issues Task Force.

The amendments in this Update clarify that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend for purposes of applying Topics 505 and 260 (Equity and Earnings Per Share). Those distributions should be accounted for and included in EPS calculations in accordance with paragraphs 480-10-25-14 and 260-10-45-45 through 45-47 of the *FASB Accounting Standards Codification*.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-02, Consolidation (Topic 810)—Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification (Issued 01/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On January 6, 2010, the FASB issued Accounting Standards Update No. 2010-02, *Consolidation (Topic 810)—Accounting and Reporting for Decreases in Ownership of a Subsidiary—a Scope Clarification*.

This Update provides amendments to Subtopic 810-10 and related guidance within U.S. GAAP to clarify that the scope of the decrease in ownership provisions of the Subtopic and related guidance applies to the following:

1. A subsidiary or group of assets that is a business or nonprofit activity
2. A subsidiary that is a business or nonprofit activity that is transferred to an equity method investee or joint venture
3. An exchange of a group of assets that constitutes a business or nonprofit activity for a noncontrolling interest in an entity (including an equity method investee or joint venture).

The amendments in this Update also clarify that the decrease in ownership guidance in Subtopic 810-10 does not apply to the following transactions even if they involve businesses:

1. Sales of in substance real estate. Entities should apply the sale of real estate guidance in Subtopics 360-20 (Property, Plant, and Equipment) and 976-605 (Retail/Land) to such transactions.
2. Conveyances of oil and gas mineral rights. Entities should apply the mineral property conveyance and related transactions guidance in Subtopic 932-360 (Oil and Gas—Property, Plant, and Equipment) to such transactions.

If a decrease in ownership occurs in a subsidiary that is not a business or nonprofit activity, an entity first needs to consider whether the substance of the transaction causing the decrease in ownership is addressed in other U.S. GAAP, such as transfers of financial assets, revenue recognition, exchanges of nonmonetary assets, sales of in substance real estate, or conveyances of oil and gas mineral rights, and apply that guidance as applicable. If no other guidance exists, an entity should apply the guidance in Subtopic 810-10.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-03, Extractive Activities—Oil and Gas (Topic 932)—Oil and Gas Reserve Estimation and Disclosures (Issued 01/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On January 6, 2010, the FASB issued Accounting Standards Update No. 2010-03, *Extractive Activities—Oil and Gas (Topic 932)—Oil and Gas Reserve Estimation and Disclosures*.

The amendments in this Update align oil and gas reserve estimation and disclosure requirements of Extractive Activities—Oil and Gas (Topic 932) with the requirements in the Securities and Exchange Commission's final rule, *Modernization of the Oil and Gas Reporting Requirements* (Final Rule). The Final Rule was issued on December 31, 2008.

The amendments improve the reserve estimation and disclosure requirements by (1) updating the reserve estimation requirements for changes in practice and technology that have occurred over the last several decades and (2) expanding the disclosure requirements for equity method investments.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-04, *Accounting for Various Topics—Technical Corrections to SEC Paragraphs* (Issued 01/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On January 15, 2010, the FASB issued Accounting Standards Update No. 2010-04, *Accounting for Various Topics—Technical Corrections to SEC Paragraphs*.

This Accounting Standards Update represents technical corrections to SEC paragraphs.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-05, *Compensation—Stock Compensation (Topic 718)—Escrowed Share Arrangements and the Presumption of Compensation* (Issued 01/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On January 15, 2010, the FASB issued Accounting Standards Update No. 2010-05, *Compensation—Stock Compensation (Topic 718)—Escrowed Share Arrangements and the Presumption of Compensation*.

This Accounting Standards Update contains Securities and Exchange Commission (SEC) Content which codifies EITF Topic D-110, Escrowed Share Arrangements and the Presumption of Compensation.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements* (Issued 01/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On January 21, 2010, the FASB issued Accounting Standards Update No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements*.

This Update provides amendments to Subtopic 820-10 as follows:

1. Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers.
2. Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number).

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-07, *Not-for-Profit Entities (Topic 958)*—*Not-for-Profit Entities: Mergers and Acquisitions* (Issued 01/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On January 28, 2010, the FASB issued Accounting Standards Update No. 2010-07, *Not-for-Profit Entities (Topic 958)*—*Not-for-Profit Entities: Mergers and Acquisitions*.

The Accounting Standards Codification is amended as a result of the issuance of FASB Statement No. 164, *Not-for-Profit Entities: Mergers and Acquisitions*. That Statement was issued in April 2009.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-08, *Technical Corrections to Various Topics* (Issued 02/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On February 2, 2010, the FASB issued Accounting Standards Update No. 2010-08, *Technical Corrections to Various Topics*.

While none of the provisions in the amendments in this Update fundamentally change U.S. GAAP, certain clarifications made to the guidance on embedded derivatives and hedging (Subtopic 815-15 of the *FASB Accounting Standards Codification*) may cause a change in the application of that Subtopic and, thus, special transition provisions are provided for accounting changes related to that Subtopic.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-09, *Subsequent Events (Topic 855)*—*Amendments to Certain Recognition and Disclosure Requirements* (Issued 02/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On February 24, 2010, the FASB issued Accounting Standards Update No. 2010-09, *Subsequent Events (Topic 855)*—*Amendments to Certain Recognition and Disclosure Requirements*.

This Update provides amendments to Subtopic 855-10 that require new disclosures as follows:

1. An entity that either (a) is an SEC filer or (b) is a conduit bond obligor for conduit debt securities that are traded in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local or regional markets) is required to evaluate subsequent events through the date that the financial statements are issued. If an entity meets neither of those criteria, then it should evaluate subsequent events through the date the financial statements are available to be issued.
2. The glossary of Topic 855 is amended to include the definition of *SEC filer*.
3. An entity that is an SEC filer is not required to disclose the date through which subsequent events have been evaluated.
4. The scope of the reissuance disclosure requirements is refined to include revised financial statements only.
5. The glossary of Topic 855 is amended to remove the definition of *public entity*.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-10, Consolidation (Topic 810)—Amendments for Certain Investment Funds (Issued 02/10)

The material in this Update is eligible to be tested in the July-August 2010 exam window.

On February 25, 2010, the FASB issued Accounting Standards Update No. 2010-10, *Subsequent Events (Topic 855)—Amendments to Certain Recognition and Disclosure Requirements*.

The amendments to the consolidation requirements of Topic 810 resulting from the issuance of Statement 167 are deferred for a reporting entity's interest in an entity (1) that has all the attributes of an investment company or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral does not apply in situations in which the entity has the explicit or implicit obligation to fund losses of an entity that could potentially be significant to the entity. The deferral also doesn't apply to interests in securitization entities, asset-backed financing entities, or entities formerly considered qualifying SPEs. Additionally, the deferral applies to a reporting entity's interest in an entity required to comply in accordance with requirements similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. An entity that qualifies for the deferral will continue to be assessed under the overall guidance on the consolidation of variable interest entities in Subtopic 810-10 or other applicable consolidation guidance.

The amendments in this Update also clarify that for entities that do not qualify for the deferral, related parties should be considered when evaluating each of the criteria in paragraph 810-10-55-37, as amended by Statement 167, for determining whether a decision maker or service provider fee represents a variable interest. In addition, the requirements for evaluating whether a decision maker's or service provider's fee is a variable interest are modified to clarify the Board's intention that a quantitative calculation should not be the sole basis for this evaluation.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

ASU No. 2010-11, Derivatives and Hedging (Topic 815)—Scope Exception Related to Embedded Credit Derivatives (Issued 03/10)

The material in this Update isn't eligible to begin being tested until the October-November 2010 exam window.

On March 3, 2010, the FASB issued Accounting Standards Update No. 2010-11, *Derivatives and Hedging (Topic 815)—Scope Exception Related to Embedded Credit Derivatives*.

This Update provides amendments to Subtopic 815-15, Derivatives and Hedging—Embedded Derivatives, as follows:

1. Subtopic 815-15 is amended to clarify the scope exception under paragraphs 815-15-15-8 through 15-9 for embedded credit derivative features related to the transfer of credit risk in the form of subordination of one financial instrument to another.
2. The embed credit derivative feature related to the transfer of credit risk that is only in the form of subordination of one financial instrument to another is not subject to the application of Section 815-15-25.
3. Other embedded credit derivative features are considered embedded derivatives subject to the application of Section 815-15-25, provided the overall contract is not a derivative in its entirety.
4. The economic characteristics and risks of an embedded credit derivative feature under certain circumstances should be considered in meeting the criterion in paragraph 815-15-25-1(a).
5. In initially adopting the amendments of this Update, an entity may elect the fair value option.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-12, *Income Taxes (Topic 740)—Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts* (Issued 04/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On April 4, 2010, the FASB issued Accounting Standards Update No. 2010-12, *Income Taxes (Topic 740)—Accounting for Certain Tax Effects of the 2010 Health Care Reform Acts*.

This Update provides amendments to Subtopic 740-10 to provide information from the SEC Staff Announcement: Accounting for the Health Care and Education Reconciliation Act of 2010 and the Patient Protection and Affordable Care Act.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-13, *Compensation—Stock Compensation (Topic 718)—Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Trades—a consensus of the FASB Emerging Issues Task Force* (Issued 04/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On April 16, 2010, the FASB issued Accounting Standards Update No. 2010-13, *Compensation—Stock Compensation (Topic 718)—Effect of Denominating the Exercise Price of a Share-Based Payment Award in the Currency of the Market in Which the Underlying Equity Trades—a consensus of the FASB Emerging Issues Task Force*.

This Update provides amendments to Subtopic 718 to clarify that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-14, *Accounting for Extractive Activities – Oil & Gas—Amendments to Paragraph 932-10-S99-1* (Issued 04/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On April 20, 2010, the FASB issued Accounting Standards Update No. 2010-14, *Accounting for Extractive Activities—Oil & Gas—Amendments to Paragraph 932-10-S99-1*.

This Codification Update amends paragraph 932-10-S99-1 due to SEC Release No. 33-8995 [FR 78], Modernization of Oil and Gas Reporting. It amends material from Regulation S-X and introduces new definitions into the Section.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-15, *Financial Services—Insurance (Topic 944)—How Investments held through Separate Accounts affect an Insurer’s Consolidation analysis of Those Investments—a consensus of the FASB Emerging Issues Task (Issued 04/10)*

The material in this Update isn’t eligible to begin being tested until the January-February 2011 exam window.

On April 21, 2010, the FASB issued Accounting Standards Update No. 2010-15, *Financial Services—Insurance (Topic 944)—How Investments held through Separate Accounts affect an Insurer’s Consolidation analysis of Those Investments—a consensus of the FASB Emerging Issues Task*.

The amendments in this Update clarify that an insurance entity should not consider any separate account interests held for the benefit of policy holders in an investment to be the insurer’s interests and should not combine those interests with its general account interest in the same investment when assessing the investment for consolidation, unless the separate account interests are held for the benefit of a related party policy holder as defined in the Variable Interest Subsections of Subtopic 810-10 and those Subsections require the consideration of related parties.

This Update provides amendments to Subtopic 944-80 to clarify that for the purpose of evaluating whether the retention of specialized accounting for investments in consolidation is appropriate, a separate account arrangement should be considered a subsidiary. Additionally, the amendments do not require an insurer to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account.

The amendments in this Update also provide guidance on how an insurer should consolidate an investment fund in situations in which the insurer concludes that consolidation is required.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-16, *Entertainment—Casinos (Topic 924)—Accruals for Casino Jackpot Liabilities—a consensus of the FASB Emerging Issues Task (Issued 04/10)*

The material in this Update isn’t eligible to begin being tested until the January-February 2011 exam window.

On April 26, 2010, the FASB issued Accounting Standards Update No. 2010-16, *Entertainment—Casinos (Topic 924)—Accruals for Casino Jackpot Liabilities—a consensus of the FASB Emerging Issues Task*.

The amendments in this Update clarify that an entity should not accrue jackpot liabilities (or portions thereof) before a jackpot is won if the entity can avoid paying that jackpot. Jackpots should be accrued and charged to revenue when an entity has the obligation to pay the jackpot. This guidance applies to both base and progressive jackpots.

Note: The editors do not expect the material in this Codification Update to be heavily tested, if at all.

ASU No. 2010-17, Revenue Recognition—Milestone Method (Topic 605)—Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task (Issued 04/10)

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On April 28, 2010, the FASB issued Accounting Standards Update No. 2010-17, *Revenue Recognition—Milestone Method (Topic 605)—Milestone Method of Revenue Recognition—a consensus of the FASB Emerging Issues Task*.

The amendments in this Update affect vendors that provide research or development deliverables in an arrangement in which one or more payments are contingent upon achieving uncertain future events or circumstances.

The amendments in this Update provide guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive.

Determining whether a milestone is substantive is a matter of judgment made at the inception of the arrangement. The following criteria must be met for a milestone to be considered substantive. The consideration earned by achieving the milestone should:

1. Be commensurate with either of the following:
 - a. The vendor's performance to achieve the milestone
 - b. The enhancement of the value of the item delivered as a result of a specific outcome resulting from the vendor's performance to achieve the milestone
2. Relate solely to past performance
3. Be reasonable relative to all deliverables and payment terms in the arrangement.

A milestone should be considered substantive in its entirety. An individual milestone may not be bifurcated. An arrangement may include more than one milestone, and each milestone should be evaluated separately to determine whether the milestone is substantive. Accordingly, an arrangement may contain both substantive and nonsubstantive milestones.

A vendor's decision to use the milestone method of revenue recognition for transactions within the scope of the amendments in this Update is a policy election. Other proportional revenue recognition methods also may be applied as long as the application of those other methods does not result in the recognition of consideration in its entirety in the period the milestone is achieved.

A vendor that is affected by the amendments in this Update is required to provide all of the following:

1. A description of the overall arrangement
2. A description of each milestone and related contingent consideration
3. A determination of whether each milestone is considered substantive
4. The factors that the entity considered in determining whether the milestone or milestones are substantive
5. The amount of consideration recognized during the period for the milestone or milestones.

GAAP did not previously include guidance on when the use of the milestone method is appropriate. The amendments in this Update improve financial reporting by providing a consistent framework for applying the milestone method, thus eliminating diversity in practice on its application.

Note: The editors expect the material in this Codification Update may be lightly tested.

ASU No. 2010-18, *Receivables (Topic 310)—Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task (Issued 04/10)*

The material in this Update isn't eligible to begin being tested until the January-February 2011 exam window.

On April 29, 2010, the FASB issued Accounting Standards Update No. 2010-18, *Receivables (Topic 310)—Effect of a Loan Modification When the Loan Is Part of a Pool That Is Accounted for as a Single Asset—a consensus of the FASB Emerging Issues Task*.

As a result of the amendments in this Update, modifications of loans that are accounted for within a pool under Subtopic 310-30 do not result in the removal of those loans from the pool even if the modification of those loans would otherwise be considered a troubled debt restructuring. An entity will continue to be required to consider whether the pool of assets in which the loan is included is impaired if expected cash flows for the pool change.

The amendments in this Update do not affect the accounting for loans under the scope of Subtopic 310-30 that are not accounted for within pools. Loans accounted for individually under Subtopic 310-30 continue to be subject to the troubled debt restructuring accounting provisions within Subtopic 310-40, *Receivables—Troubled Debt Restructurings by Creditors*.

Note: The editors do not expect the material in this Codification Update to be heavily tested.

RECENT GASB PRONOUNCEMENTS

GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (Issued 02/09)

The material in this update is eligible to be tested in the July-August 2010 exam window.

On March 11, 2009, the GASB issued Statement No. 54 of the Governmental Accounting Standards Board, *Fund Balance Reporting and Governmental Fund Type Definitions*. Statement 54 provides clearer, more structured fund balance classifications and clarifies the definitions of existing governmental fund types.

The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed. In governmental funds other than the general fund, assigned fund balance represents the remaining amount that is not restricted or committed. Unassigned fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned. Governments are required to disclose information about the processes through which constraints are imposed on amounts in the committed and assigned classifications.

Governments also are required to classify and report amounts in the appropriate fund balance classifications by applying their accounting policies that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent. Disclosure of the policies in the notes to the financial statements is required.

This Statement also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

The requirements in this Statement will improve financial reporting by providing fund balance categories and classifications that will be more easily understood. Elimination of the reserved component of fund balance in favor of a restricted classification will enhance the consistency between information reported in the government-wide statements and information in the governmental fund financial statements and avoid confusion about the relationship between reserved fund balance and restricted net assets.

Note: The editors expect the material in this Statement to be adequately tested.

GASB 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (Issued 03/09)

The material in this update is eligible to be tested in the July-August 2010 exam window.

On April 2, 2009, the GASB issued Statement No. 55 of the Governmental Accounting Standards Board, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The objective of this Statement is to incorporate the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles.

The GAAP hierarchy governs what constitutes GAAP for all state and local governmental entities. It lists the order of priority of pronouncements that a governmental entity should look to for accounting and financial reporting guidance. The sources of accounting principles that are generally accepted are categorized in descending order of authority as follows:

- a. Officially established accounting principles—Governmental Accounting Standards Board (GASB) Statements and Interpretations. GASB Statements and Interpretations are periodically incorporated in the Codification of Governmental Accounting and Financial Reporting Standards.
- b. GASB Technical Bulletins and, if specifically made applicable to state and local governmental entities by the American Institute of Certified Public Accountants (AICPA) and cleared by the GASB, AICPA Industry Audit and Accounting Guides, and AICPA Statements of Position.
- c. AICPA Practice Bulletins if specifically made applicable to state and local governmental entities and cleared by the GASB, as well as consensus positions of a group of accountants organized by the GASB that attempts to reach consensus positions on accounting issues applicable to state and local governmental entities.
- d. Implementation guides (Q&As) published by the GASB staff, as well as practices that are widely recognized and prevalent in state and local government.

If the accounting treatment for a transaction or other event is not specified by a pronouncement in category (a), a governmental entity should consider whether the accounting treatment is specified by an accounting principle from a source in another category. In such cases, if categories (b)–(d) contain accounting principles that specify accounting treatments for a transaction or other event, the governmental entity should follow the accounting treatment specified by the accounting principle from the source in the highest category—for example, follow category (b) treatment over category (c) treatment.

If the accounting treatment for a transaction or other event is not specified by a pronouncement or established in practice as described in categories (a)–(d), a governmental entity should consider accounting principles for similar transactions or other events within categories (a)–(d) and may consider other accounting literature. A governmental entity should not follow the accounting treatment specified in accounting principles for similar transactions or other events in cases in which those accounting principles either prohibit the application of the accounting treatment to the particular transaction or other event or indicate that the accounting treatment should not be applied by analogy.

Other accounting literature includes, for example, GASB Concepts Statements; the pronouncements referred to in categories (a)–(d) of the GAAP hierarchy for nongovernmental entities if not specifically made applicable to state and local governmental entities by the GASB; and so forth. The appropriateness of other accounting literature depends on its relevance to particular circumstances, the specificity of the guidance, and the general recognition of the issuer or author as an authority. For example, GASB Concepts Statements would normally be more influential than other sources in this category.

Note: The editors expect the material in this Statement to possibly be tested.

GASB 56, Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards (Issued 03/09)

The material in this update is eligible to be tested in the July-August 2010 exam window.

On April 16, 2009, the GASB issued Statement No. 56 of the Governmental Accounting Standards Board, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*.

The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statements on Auditing Standards. This Statement addresses three issues not included in the authoritative literature that establishes accounting principles—related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature.

This Statement does not establish new accounting standards but rather incorporates the existing guidance (to the extent appropriate in a governmental environment) into the GASB standards. This will improve financial reporting by contributing to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source.

Note: The editors do not expect the material in this Statement to be heavily tested.

GASB 57, OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans (Issued 12/09)

The material in this update is eligible to be tested in the July-August 2010 exam window.

On December 31, 2009, the GASB issued Statement No. 57 of the Governmental Accounting Standards Board, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*.

The objective of this Statement is to address issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers).

This Statement amends Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends a Statement No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

The requirements in this Statement will allow more agent employers to use the alternative measurement method to produce actuarially based information for purposes of financial reporting.

Note: The editors do not expect the material in this Statement to be heavily tested.

GASB 58, Accounting and Financial Reporting for Chapter 9 Bankruptcies (Issued 12/09)

The material in this update is eligible to be tested in the July-August 2010 exam window.

On December 31, 2009, the GASB issued Statement No. 58 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan.

For accounts payable, notes, debentures and bonds, and related interest payable, this Statement requires governments to base remeasurement on the new payment plan. Reductions in future interest payments would result in lower interest costs reported in future periods. Reductions to principal or to accrued interest payable may result in gains reported at the time of the reduction. If the new payment plan does not indicate whether it reduces principal payments or future interest payments that have not been accrued, the debt should be remeasured at the present value of the future payments using the original discount rate, and a gain should be reported at the time of the reduction.

For leases, pollution remediation liabilities, and liabilities for pension and other postemployment benefit plans, this Statement requires remeasurement based on existing authoritative guidance. However, if a benefit plan is rejected in bankruptcy and becomes general unsecured debt, this Statement requires the existing liability to be removed and a new approved payment plan to be recognized as a judgment, with a gain or loss recognized for the difference.

For governments that are not expected to emerge from bankruptcy as going concerns, this Statement requires remeasurement of assets to a value that represents the amount expected to be received.

This Statement classifies gains or losses resulting from remeasurement of liabilities and assets as an extraordinary item.

Governments that have filed for bankruptcy are required to disclose information regarding, among other things, the pertinent conditions and events giving rise to the petition for bankruptcy, the expected gain, and the effects upon services.

Prior to this Statement, there was no authoritative accounting and financial reporting guidance for governments filing for bankruptcy. Other accounting standards that have been applied to Chapter 9 bankruptcy take different approaches to, for example, recognition and measurement. The requirements in this Statement will improve financial reporting by providing more consistent recognition, measurement, display, and disclosure guidance for governments that file for Chapter 9 bankruptcy. In addition, these requirements will provide financial statement users with better information regarding the effects of bankruptcy upon governments that file for Chapter 9 protection.

Note: The editors do not expect the material in this Statement to be heavily tested.

ERRATA

The following items are in the textbook only, unless otherwise noted. If you find other items that you believe are ambiguous or in error, please contact the Bisk Education editors (editor@cpaexam.com) with details.

Chapter 2: Page 2-16, Example 12 ▶ Trading Securities Portfolio, Unrealized Gain or Loss. In the solution for a., the first sentence should read “At the end of year 1, the unrealized holding gain of \$100 would appear in the year 1 income statement.” instead of “At the end of year 1, the unrealized holding gain of \$100 would appear in the year 2 income statement.”

Page 2-62, Question 78 (4574). The explanation should read as follows: “An unrealized loss in the previous year on an investment in marketable equity securities classified as available-for-sale would be shown as an other comprehensive income item. The market price decline in the previous year was less than the increase in market price in the current year because there was a realized gain reported on the current year income statement which means the security was sold for a price exceeding its cost. Thus in the current year, the market price increased enough to recover the unrealized loss experienced in the previous year and to produce a gain on the sale of the investment. An unrealized loss in the previous year on an investment in marketable equity securities classified as trading would be reported in the income statement rather than in other comprehensive income. A trading security would be written to fair value at the end of the previous year. If a trading security did report a realized gain in the current year it would be indeterminable as to whether any market price declined or not in the previous year.”

Chapter 6: Page 6-34, Solution 6-3, Amortization Table tab. The correct response for the Stated Annual Interest Rate (4) should be “C, 8%” instead of “D, 6%” and the correct response for the Effective Annual Interest Rate (5) should be “E, 12%” instead of “F, 10%.”

Chapter 10: Page 10-44, Problem 10-3, Balance Sheet tab. The figure provided in the middle of the balance sheet (amount of beginning retained earnings) should read “\$1,965,000” instead of “\$1,845,000.”

Page 10-59, Solution 10-3, Balance Sheet tab. The text for line 7 should read “Less common stock in treasury, 6,000 shares at cost” instead of “Less common stock in treasury, 5,000 shares at cost.”

Chapter 11: Page 11-47, Problem 11-3, Change and Treatment tab. Item 4 should start with “In January of year 4” instead of “In January of year 6.”

Page 11-47, Problem 11-3, Categories tab. The last line of item 6 should read “Compute the amount of depreciation expense that should be reported in year 9 and select the proper category.” instead of “Compute the amount of the accounting change and select the proper category.”

Page 11-65, Solution 10-3, Categories tab. For item 6 the amount answer should be \$65,714 and the category answer should be A. The explanation should read as follows:

The SYD depreciated was computed as follows.

Year 6	$(\$740,000 - \$50,000) \times 6/21$	\$197,143
Year 7	$(\$740,000 - \$50,000) \times 5/21$	\$164,286
Year 8	$(\$740,000 - \$50,000) \times 4/21$	<u>\$131,429</u>
		\$492,858

The \$740,000 cost less accumulated depreciation of \$492,858 less salvage of \$50,000 = \$197,142 to be depreciated over the three remaining years. $\$197,142 \div 3 = \$65,714$.

Chapter 13: Page 13-32, Question 13 (7776). Please disregard this question and the corresponding answer/explanation on page 13-45. This accounting question is no longer valid.

- Chapter 15: Page 15-13, Item D.1.b. Face or Notes. The sentence should read “An entity that reports a discontinued operation or an extraordinary item is required to present EPS amounts for those line items either on the face of the income statement or in the notes to the financial statements.” Reference to the cumulative effect of an accounting change in a period should be removed.
- Chapter 15: Page 15-13, Item D.3.b. Face or Notes. The sentence should read “For each component of income, including discontinued operation and extraordinary items, an entity must present per share information either on the income statement face or in the notes to the financial statements.” Reference to the cumulative effect of an accounting change in a period should be removed.
- Chapter 17: Page 17-14, Example 7 ► 80% Acquisition. The last line on the note at the bottom should start “The difference, \$28,000 – \$24,000 = \$4,000” instead of “The difference, \$428,000 – \$24,000 = \$4,000.”
- Chapter 17: Page 17-28, Question 9 (8983). The second sentence should start “At September 1, Sibb’s balance sheet showed a carrying amount of net assets of \$1,080,000” instead of “At September 1, Sibb’s balance sheet showed a carrying amount of net assets of \$1,680,000.”
- Chapter 17: Page 17-41, Answer 9 (8983). There was no correct answer listed. The correct answer would be \$380,000 with the following explanation:
- Goodwill is the excess of the consideration transferred plus the fair value of any noncontrolling interest over the fair value of the identifiable net assets (INA) acquired.
- | | | |
|---|----------------|--------------------|
| Investment cost (80%) | | \$ 1,440,000 |
| Noncontrolling interest (20%) | | 310,000 |
| Carrying amount of INA | \$1,080,000 | |
| Fair value of plant assets in excess of carrying amount | <u>290,000</u> | |
| Less: Fair value of INA acquired | | <u>(1,370,000)</u> |
| Goodwill | | <u>\$ 380,000</u> |
- Chapter 17: Page 17-41, Answer 13 (6982). The correct answer choice should be “b” and not “a.” The explanation is correct as presented.
- Chapter 17: Page 17-51, Solution 17-3, Worksheet tab. The consolidated balance total of 1,500,000 for Noncontrolling interest should have parentheses around it;(1,500,000). Also the debit and credit totals at the bottom of the Adjustments and Eliminations column should read “\$10,731,500” instead of “\$8,771,500.”
- Chapter 19: Page 19-33 Answer 10 (7763). Answer c is correct, but the explanation should read “Entity-wide statements, the government-wide statements, are done under normal accrual accounting. Only fund financial statements, done under modified accrual, would take into account any 60-day criteria. Under normal accrual accounting the amount of property tax revenue reported would be the \$2,000,000 property tax levied less the 1% (\$20,000) for estimated uncollectible taxes for a total of \$1,980,000.”
- Chapter 20: Page 19-33 Answer 48 (7073). Answer c is correct, but the explanation should read “With endowment funds, the principal is to be maintained intact and the earnings may be expended for specified restricted purposes and/or unrestricted purposes. The restricted current fund is used for available financial resources and related liabilities that are expendable only for operating purposes specified by the donor. Temporarily restricted net assets would have been increased \$30,000 for the investment income but then decreased that same amount when the organization spent \$45,000. The other \$15,000 spent (\$45,000 – \$30,000 = \$15,000) would have come from unrestricted funds.”

2010 RELEASED AICPA QUESTIONS AND ANSWERS

In April, 2010, the AICPA released fifty-four multiple-choice questions and one simulation relating to the FAR section of the CPA examination. These questions and their unofficial answers are reproduced here, along with the exclusive Bisk Education explanations. The reference to the Content Specification Outline (CSO) at the end of each answer explanation pertains to the current CSO still in effect for the July-August and October-November 2010 exam windows, not the upcoming CSO which will not be effective until January 1, 2011.

Unlike previous year's releases, the multiple-choice questions in Problems 1 and 2 were **not** labeled *moderate* or *hard* and they did **not** contain a skill designation such as *analysis*, *judgment*, or *understanding* by the AICPA examiners. Problem 3 contains four multiple-choice questions, two each on the new SEC reporting and new IFRS reporting requirements that will be tested starting in January 2011. Problem 4 is the one simulation that was disclosed. The AICPA did not state if these questions ever appeared on any exam, whether they were assigned points or merely being pre-tested and earned no points if they did appear on an exam, or if they were now obsolete for some reason.

These questions are intended only as a study aid and should not be used to predict the content of future exams. It is extremely unlikely that released questions will ever appear on future examinations. These questions have been reproduced as received from the AICPA examiners. If candidates encounter what they believe are errors or ambiguities in questions during their actual exams, they should bring them to the attention of the examiners in accordance with the procedures outlined on the AICPA's web site.

Problem 1 MULTIPLE-CHOICE QUESTIONS

1. Ande Co. estimates uncollectible accounts expense using the ratio of past actual losses from uncollectible accounts to past net credit sales, adjusted for anticipated conditions. The practice follows the accounting concept of
- Consistency
 - Going concern
 - Matching
 - Substance over form
- (R/10, FAR, #1, 9301)

2. In Dart Co.'s year 2 single-step income statement, as prepared by Dart's controller, the section titled "Revenues" consisted of the following:

Sales	\$250,000
Purchase discounts	3,000
Recovery of accounts written off	<u>10,000</u>
Total revenue	\$263,000

In its year 2 single-step income statement, what amount should Dart report as total revenues?

- \$250,000
 - \$253,000
 - \$260,000
 - \$263,000
- (R/10, FAR, #2, 9302)
3. Which of the following would be reported as an investing activity in a company's statement of cash flows?
- Collection of proceeds from a note payable
 - Collection of a note receivable from a related party
 - Collection of an overdue account receivable from a customer
 - Collection of a tax refund from the government
- (R/10, FAR, #3, 9303)

4. Young & Jamison's modified cash-basis financial statements indicate cash paid for operating expenses of \$150,000, end-of-year prepaid expenses of \$15,000, and accrued liabilities of \$25,000. At the beginning of the year, Young & Jamison had prepaid expenses of \$10,000, while accrued liabilities were \$5,000. If cash paid for operating expenses is converted to accrual-basis operating expenses, what would be the amount of operating expenses?
- \$125,000
 - \$135,000
 - \$165,000
 - \$175,000
- (R/10, FAR, #4, 9304)

5. Garson Co. recorded goods in transit purchased f.o.b. shipping point at year end as purchases. The goods were excluded from ending inventory. What effect does the omission have on Garson's assets and retained earnings at year end?

	<u>Assets</u>	<u>Retained earnings</u>	
a.	No effect	Overstated	
b.	No effect	Understated	
c.	Understated	No effect	
d.	Understated	Understated	(R/10, FAR, #5, 9305)

6. Last year, Katt Co. reduced the carrying amount of its long-lived assets used in operations from \$120,000 to \$100,000, in connection with its annual impairment review. During the current year, Katt determined that the fair value of the same assets had increased to \$130,000. What amount should Katt record as restoration of previously recognized impairment loss in the current year's financial statements?
- \$0
 - \$10,000
 - \$20,000
 - \$30,000
- (R/10, FAR, #6, 9306)

7. Northstar Co. acquired a registered trademark for \$600,000. The trademark has a remaining legal life of five years, but can be renewed every 10 years for a nominal fee. Northstar expects to renew the trademark indefinitely. What amount of amortization expense should Northstar record for the trademark in the current year?
- \$0
 - \$15,000
 - \$40,000
 - \$120,000
- (R/10, FAR, #7, 9307)

8. Acme Co.'s accounts payable balance at December 31 was \$850,000 before necessary year-end adjustments, if any, related to the following information:

At December 31, Acme has a \$50,000 debit balance in its accounts payable resulting from a payment to a supplier for goods to be manufactured to Acme's specifications.

Goods shipped f.o.b. destination on December 20 were received and recorded by Acme on January 2, the invoice cost was \$45,000.

In its December 31 balance sheet, what amount should Acme report as accounts payable?

- \$850,000
 - \$895,000
 - \$900,000
 - \$945,000
- (R/10, FAR, #8, 9308)

9. On September 30, World Co. borrowed \$1,000,000 on a 9% note payable. World paid the first of four quarterly payments of \$264,200 when due on December 30. In its December 31 balance sheet, what amount should World report as note payable?

- a. \$735,800
- b. \$750,000
- c. \$758,300
- d. \$825,800

(R/10, FAR, #9, 9309)

10. Finch Co. reported a total asset retirement obligation of \$257,000 in last year's financial statements. This year, Finch acquired assets subject to unconditional retirement obligations measured at undiscounted cash flow estimates of \$110,000 and discounted cash flow estimates of \$68,000. Finch paid \$87,000 toward the settlement of previously recorded asset retirement obligations and recorded an accretion expense of \$26,000. What amount should Finch report for the asset retirement obligation in this year's balance sheet?

- a. \$238,000
- b. \$264,000
- c. \$280,000
- d. \$306,000

(R/10, FAR, #10, 9310)

11. Falton Co. had the following first-year amounts related to its \$9,000,000 construction contract:

Actual costs incurred and paid	\$2,000,000
Estimated costs to complete	6,000,000
Progress billings	1,800,000
Cash collected	1,500,000

What amount should Falton recognize as a current liability at year end, using the percentage-of-completion method?

- a. \$0
- b. \$200,000
- c. \$250,000
- d. \$300,000

(R/10, FAR, #11, 9311)

12. Conlon Co. is the plaintiff in a patent-infringement case. Conlon has a high probability of a favorable outcome, and can reasonably estimate the amount of the settlement. What is the proper accounting treatment of the patent infringement case?

- a. A gain contingency for the minimum estimated amount of the settlement
- b. A gain contingency for the estimated probable settlement
- c. Disclosure in the notes only
- d. No reporting is required at this time

(R/10, FAR, #12, 9312)

13. A firm has basic earnings per share of \$1.29. If the tax rate is 30%, which of the following securities would be dilutive?

- a. Cumulative 8%, \$50 par preferred stock
- b. Ten percent convertible bonds, issued at par, with each \$1,000 bond convertible into 20 shares of common stock
- c. Seven percent convertible bonds, issued at par, with each \$1,000 bond convertible into 40 shares of common stock
- d. Six percent, \$100 par cumulative convertible preferred stock, issued at par, with each preferred share convertible into four shares of common stock

(R/10, FAR, #13, 9313)

14. On which of the following dates is a public entity required to measure the cost of employee services in exchange for an award of equity interests, based on the fair market value of the award?
- Date of grant
 - Date of restriction lapse
 - Date of vesting
 - Date of exercise
- (R/10, FAR, #14, 9314)
15. An entity sponsors a defined benefit pension plan that is underfunded by \$800,000. A \$500,000 increase in the fair value of plan assets would have which of the following effects on the financial statements of the entity?
- An increase in the assets of the entity
 - An increase in accumulated other comprehensive income of the entity for the full amount of the increase in the value of the assets
 - A decrease in accumulated other comprehensive income of the entity for the full amount of the increase in the value of the assets
 - A decrease in the liabilities of the entity
- (R/10, FAR, #15, 9315)
16. Neely Co. disclosed in the notes to its financial statements that a significant number of its unsecured trade account receivables are with companies that operate in the same industry. This disclosure is required to inform financial statement users of the existence of
- Concentration of credit risk
 - Concentration of market risk
 - Risk of measurement uncertainty
 - Off-balance sheet risk of accounting loss
- (R/10, FAR, #16, 9316)
17. Sun Co. was constructing fixed assets that qualified for interest capitalization. Sun had the following outstanding debt issuances during the entire year of construction:
- \$6,000,000 face value, 8% interest
 - \$8,000,000 face value, 9% interest
- None of the borrowings were specified for the construction of the qualified fixed asset. Average expenditures for the year were \$1,000,000. What interest rate should Sun use to calculate capitalized interest on the construction?
- 8.00%
 - 8.50%
 - 8.57%
 - 9.00%
- (R/10, FAR, #17, 9317)
18. Bard Co., a calendar-year corporation, reported income before income tax expense of \$10,000 and income tax expense of \$1,500 in its interim income statement for the first quarter of the year. Bard had income before income tax expense of \$20,000 for the second quarter and an estimated effective annual rate of 25%. What amount should Bard report as income tax expense in its interim income statement for the second quarter?
- \$3,500
 - \$5,000
 - \$6,000
 - \$7,500
- (R/10, FAR, #18, 9318)

19. On January 2 of the current year, LTTI Co. entered into a three-year, non-cancelable contract to buy up to 1 million units of a product each year at \$.10 per unit with a minimum annual guarantee purchase of 200,000 units. At year end, LTTI had only purchased 80,000 units and decided to cancel sales of the product. What amount should LTTI report as a loss related to the purchase commitment as of December 31 of the current year?
- a. \$0
 - b. \$ 8,000
 - c. \$ 12,000
 - d. \$ 52,000
- (R/10, FAR, #19, 9319)
20. In Soan County's general fund statement of revenues, expenditures, and changes in fund balances, which of the following has an effect on the excess of revenues over expenditures?
- a. Purchase of fixed assets
 - b. Payment to a debt-service fund
 - c. Special items
 - d. Proceeds from the sale of capital assets
- (R/10, FAR, #20, 9320)
21. How should state appropriations to a state university choosing to report as engaged only in business-type activities be reported in its statement of revenues, expenses, and changes in net assets?
- a. Operating revenues
 - b. Nonoperating revenues
 - c. Capital contributions
 - d. Other financing sources
- (R/10, FAR, #21, 9321)
22. What is the major difference between an exchange transaction and a non-exchange transaction for governmental units?
- a. The relationship between the amount of value given and received
 - b. Time requirements and whether the transaction is required by law
 - c. Purpose restrictions placed upon fund balances
 - d. Whether resources acquired can be further exchanged
- (R/10, FAR, #22, 9322)
23. A nongovernmental not-for-profit animal shelter receives contributed services from the following individuals valued at their normal billing rate:
- | | |
|--|---------|
| Veterinarian provides volunteer animal care | \$8,000 |
| Board members volunteer to prepare books for audit | 4,500 |
| Registered nurse volunteers as receptionist | 3,000 |
| Teacher provides volunteer dog walking | 2,000 |
- What amount should the shelter record as contribution revenue?
- a. \$ 8,000
 - b. \$ 11,000
 - c. \$ 12,500
 - d. \$ 14,500
- (R/10, FAR, #23, 9323)
24. Whitestone, a nongovernmental not-for-profit organization, received a contribution in December year 1. The donor restricted use of the contribution until March year 2. How should Whitestone record the contribution?
- a. Footnote the contribution in year 1 and record as income when it becomes available in year 2
 - b. No entry required in year 1 and record as income in year 2 when it becomes available
 - c. Report as income in year 1
 - d. Report as deferred income in year 1
- (R/10, FAR, #24, 9324)

25. A nongovernmental, not-for-profit organization received the following donations of corporate stock during the year:

	<u>Donation 1</u>	<u>Donation 2</u>
Number of shares	2,000	3,000
Adjusted basis	\$8,000	\$5,500
Fair market value at time of donation	8,500	6,000
Fair market value at year end	10,000	4,000

What net value of investments will the organization report at the end of the year?

- \$12,000
- \$13,500
- \$14,000
- \$14,500

(R/10, FAR, #25, 9325)

Problem 2 MULTIPLE-CHOICE QUESTIONS

26. According to the FASB conceptual framework, which of the following correctly pairs a primary qualitative characteristic of accounting information with one of its components?

- Relevance and Timeliness
- Relevance and Verifiability
- Reliability and Predictive Value
- Reliability and Feedback Value

(R/10, FAR, #26, 9326)

27. Which of the following is included in other comprehensive income?

- Unrealized holding gains and losses on trading securities
- Unrealized holding gains and losses that result from a debt security being transferred into the held-to-maturity category from the available-for-sale category
- Foreign currency translation adjustments
- The difference between the accumulated benefit obligation and the fair value of pension plan assets

(R/10, FAR, #27, 9327)

28. Which of the following transactions should be classified as investing activities on an entity's statement of cash flows?

- Increase in accounts receivable
- Sale of property, plant and equipment
- Payment of cash dividend to the shareholders
- Issuance of common stock to the shareholders

(R/10, FAR, #28, 9328)

29. A company provides the following information:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Cash receipts from customers			
From year 1 sales	\$95,000	\$120,000	
From year 2 sales		200,000	\$ 75,000
From year 3 sales		50,000	225,000

What is the accrual-based revenue for year 2?

- \$200,000
- \$275,000
- \$320,000
- \$370,000

(R/10, FAR, #29, 9329)

30. Milton Co. pledged some of its accounts receivable to Good Neighbor Financing Corporation in return for a loan. Which of the following statements is correct?
- Good Neighbor Financing cannot take title to the receivables if Milton does not repay the loan. Title can only be taken if the receivables are factored.
 - Good Neighbor Financing will assume the responsibility of collecting the receivables.
 - Milton will retain control of the receivables.
 - Good Neighbor Financing will take title to the receivables, and will return title to Milton after the loan is paid. (R/10, FAR, #30, 9330)
31. On April 1, Aloe, Inc. factored \$80,000 of its accounts receivable without recourse. The factor retained 10% of the accounts receivable as an allowance for sales returns and charged a 5% commission on the gross amount of the factored receivables. What amount of cash did Aloe receive from the factored receivables?
- \$68,000
 - \$68,400
 - \$72,000
 - \$76,000 (R/10, FAR, #31, 9331)
32. What is the appropriate treatment for goods held on consignment?
- The goods should be included in ending inventory of the consignor.
 - The goods should be included in ending inventory of the consignee.
 - The goods should be included in cost of goods sold of the consignee only when sold.
 - The goods should be included in cost of goods sold of the consignor when transferred to the consignee. (R/10, FAR, #32, 9332)
33. Talton Co. installed new assembly line production equipment at a cost of \$185,000. Talton had to rearrange the assembly line and remove a wall to install the equipment. The rearrangement cost \$12,000 and the wall removal cost \$3,000. The rearrangement did not increase the life of the assembly line but it did make it more efficient. What amount of these costs should be capitalized by Talton?
- \$185,000
 - \$188,000
 - \$197,000
 - \$200,000 (R/10, FAR, #33, 9333)
34. Newt Co. sold a warehouse and used the proceeds to acquire a new warehouse. The excess of the proceeds over the carrying amount of the warehouse sold should be reported as a(an)
- Reduction of the cost of the new warehouse
 - Gain from discontinued operations, net of income taxes
 - Part of continuing operations
 - Extraordinary gain, net of taxes (R/10, FAR, #34, 9334)
35. When should a long-lived asset be tested for recoverability?
- When external financial statements are being prepared
 - When events or changes in circumstances indicate that its carrying amount may **not** be recoverable
 - When the asset's carrying amount is **less** than its fair value
 - When the asset's fair value has decreased, and the decrease is judged to be permanent (R/10, FAR, #35, 9335)

36. A company recently acquired a copyright that now has a remaining legal life of 30 years. The copyright initially had a 38-year useful life assigned to it. An analysis of market trends and consumer habits indicated that the copyrighted material will generate positive cash flows for approximately 25 years. What is the remaining useful life, if any, over which the company can amortize the copyright for accounting purposes?
- 0 years
 - 25 years
 - 30 years
 - 38 years
- (R/10, FAR, #36, 9336)
37. A company reported \$6 million of goodwill in last year's statement of financial position. How should the company account for the reported goodwill in the current year?
- Determine the current year's amortizable amount and report the current-year's amortization expense
 - Determine whether the fair value of the reporting unit is greater than the carrying amount and report a gain on goodwill in the income statement
 - Determine whether the fair value of the reporting unit is **less** than the carrying amount and report an impairment loss on goodwill in the income statement
 - Determine whether the fair value of the reporting unit is greater than the carrying amount and report the recovery of any previous impairment in the income statement
- (R/10, FAR, #37, 9337)
38. The senior accountant for Carlton Co., a public company with a complex capital structure, has just finished preparing Carlton's income statement for the current fiscal year. While reviewing the income statement, Carlton's finance director noticed that the earnings per share data has been omitted. What changes will have to be made to Carlton's income statement as a result of the omission of the earnings per share data?
- No changes will have to be made to Carlton's income statement. The income statement is complete without the earnings per share data.
 - Carlton's income statement will have to be revised to include the earnings per share data.
 - Carlton's income statement will only have to be revised to include the earnings per share data if Carlton's market capitalization is greater than \$5,000,000.
 - Carlton's income statement will only have to be revised to include the earnings per share data if Carlton's net income for the past two years was greater than \$5,000,000.
- (R/10, FAR, #38, 9338)
39. A derivative financial instrument is best described as
- Evidence of an ownership interest in an entity such as shares of common stock
 - A contract that has its settlement value tied to an underlying notional amount
 - A contract that conveys to a second entity a right to receive cash from a first entity
 - A contract that conveys to a second entity a right to future collections on accounts receivable from a first entity
- (R/10, FAR#39, 9339)
40. In year 2, Ajax, Inc. reported taxable income of \$400,000 and pretax financial statement income of \$300,000. The difference resulted from \$60,000 of nondeductible premiums on Ajax's officers' life insurance and \$40,000 of rental income received in advance. Rental income is taxable when received. Ajax's effective tax rate is 30%. In its year 2 income statement, what amount should Ajax report as income tax expense-current portion?
- \$ 90,000
 - \$102,000
 - \$108,000
 - \$120,000
- (R/10, FAR, #40, 9340)

41. When accounting for income taxes, a temporary difference occurs in which of the following scenarios?

- a. An item is included in the calculation of net income, but is neither taxable nor deductible.
- b. An item is included in the calculation of net income in one year and in taxable income in a different year.
- c. An item is **no** longer taxable due to a change in the tax law.
- d. The accrual method of accounting is used. (R/10, FAR, #41, 9341)

42. How are discontinued operations and extraordinary items that occur at midyear initially reported?

- a. Disclosed only in the notes to the year-end financial statements
- b. Included in net income and disclosed in the notes to the year-end financial statements
- c. Included in net income and disclosed in the notes to interim financial statements
- d. Disclosed only in the notes to interim financial statements (R/10, FAR, #42, 9342)

43. Able Co. leased equipment to Baker under a noncancellable lease with a transfer of title. Will Able record depreciation expense on the leased asset and interest revenue related to the lease?

	<u>Depreciation expense</u>	<u>Interest revenue</u>	
a.	Yes	Yes	
b.	Yes	No	
c.	No	No	
d.	No	Yes	(R/10, FAR, #43, 9343)

44. During the current year, Beta Motor Co. incurred the following costs related to a new solar-powered car:

Salaries of laboratory employees researching how to build the new car	\$250,000
Legal fees for the patent application for the new car	20,000
Engineering follow-up during the early stages of commercial production (the follow-up occurred during the current year)	50,000
Marketing research to promote the new car	30,000
Design, testing, and construction of a prototype	400,000

What amount should Beta Motor report as research and development expense in its income statement for the current year?

- a. \$250,000
- b. \$650,000
- c. \$720,000
- d. \$750,000 (R/10, FAR, #44, 9344)

45. An enterprise must separately report information about an operating segment when the segment's revenue meets what minimum percentage of the combined revenue of all reported operating segments?

- a. 5%
- b. 10%
- c. 20%
- d. 50% (R/10, FAR, #45, 9345)

46. King City Council will be establishing a library fund. Library fees are expected to cover 55% of the library's annual resource requirements. King has decided that an annual determination of net income is desirable in order to maintain management control and accountability over library. What type of fund should King establish in order to meet their measurement objectives?
- Special revenue fund
 - General fund
 - Internal service fund
 - Enterprise fund
- (R/10, FAR, #46, 9346)
47. Which of the following statements are required to be presented for special-purpose governments engaged only in business-type activities (such as utilities)?
- Statement of net assets only
 - Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) only
 - The financial statements required for governmental funds, including MD&A
 - The financial statements required for enterprise funds, including MD&A and RSI
- (R/10, FAR, #47, 9347)
48. Brandon County's general fund had the following transactions during the year:
- | | |
|---------------------------------|-----------|
| Transfer to a debt service fund | \$100,000 |
| Payment to a pension trust fund | 500,000 |
| Purchase of equipment | 300,000 |
- What amount should Brandon County report for the general fund as other financing uses in its governmental funds statement of revenues, expenditures, and changes in fund balances?
- \$100,000
 - \$400,000
 - \$800,000
 - \$900,000
- (R/10, FAR, #48, 9348)
49. During the current year, the local humane society, a nongovernmental not-for-profit organization, received a \$100,000 permanent endowment from Cobb. Cobb stipulated that the income must be used to care for older horses that can no longer race. The endowment reported income of \$8,000 in the current year. What amount of unrestricted contribution revenue should the humane society report for the current year?
- \$108,000
 - \$100,000
 - \$ 8,000
 - \$0
- (R/10, FAR, #49, 9349)
50. How should operating expenses for a nongovernmental not-for-profit organization be reported?
- Change in temporarily restricted net assets
 - Change in unrestricted net assets
 - Change in permanently restricted net assets
 - Contra-account to associated revenues
- (R/10, FAR, #50, 9350)
-

Problem 3 MULTIPLE-CHOICE QUESTIONS

51. A company is an accelerated filer that is required to file Form 10-K with the United States Securities and Exchange Commission (SEC). What is the maximum number of days after the company's fiscal year end that the company has to file Form 10-K with the SEC?
- a. 60 days
 - b. 75 days
 - c. 90 days
 - d. 120 days
- (R/10, FAR, #51, 9543)
52. A company is required to file quarterly financial statements with the United States Securities and Exchange Commission on Form 10-Q. The company operates in an industry that is not subject to seasonal fluctuations that could have a significant impact on its financial condition. In addition to the most recent quarter end, for which of the following periods is the company required to present balance sheets on Form 10-Q?
- a. The end of the corresponding fiscal quarter of the preceding fiscal year
 - b. The end of the preceding fiscal year and the end of the corresponding fiscal quarter of the preceding fiscal year
 - c. The end of the preceding fiscal year
 - d. The end of the preceding fiscal year and the end of the prior two fiscal years
- (R/10, FAR, #52, 9544)
53. How should a first-time adopter of IFRS recognize the adjustments required to present its opening IFRS statement of financial position?
- a. All of the adjustments should be recognized in profit or loss.
 - b. Adjustments that are capital in nature should be recognized in retained earnings and adjustments that are revenue in nature should be recognized in profit or loss.
 - c. Current adjustments should be recognized in profit or loss and noncurrent adjustments should be recognized in retained earnings.
 - d. All of the adjustments should be recognized directly in retained earnings or, if appropriate, in another category of equity.
- (R/10, FAR, #53, 9545)
54. Which of the following is the minimum reporting requirement for a company that is preparing its first IFRS financial statements?
- a. Three statements of financial position
 - b. Two statements of financial position
 - c. One statement of comprehensive income
 - d. One statement of cash flows
- (R/10, FAR, #54, 9546)
-

Problem 4 SIMULATION

Situation

Allowance
Calculation

Journal Entry

Communication

Lambert, Inc. is a manufacturer of men's casual clothing. The founder and CEO of the company retired on June 30, year 1, after 10 years of management. During this time, sales and net profits increased modestly, but the CEO was very conservative about taking credit risk.

On July 1, year 1, Lambert hired a new CEO with a strong marketing background. The company adopted a new business plan, which includes aggressive expansion into new markets and liberalization of the company's credit policy. This new business plan was implemented in the fourth quarter of year 1, and resulted in a significant increase in sales for the month of December.

Lambert uses the allowance method to record doubtful accounts for financial statement reporting. In prior years, Lambert estimated its uncollectible accounts receivable by applying an estimated percentage to each category reported on the accounts receivable aging analysis. This percentage is based on historical data. The following table summarizes the accounts receivable aging analysis at December 31, year 1, and the related estimated percentage uncollectible for each category.

Accounts receivable aging analysis at December 31, year 1

Aging category	Balance at December 31, year 1	Estimated percentage uncollectible
0 - 30 days	225,000	1%
31 - 60 days	240,000	9%
61 - 90 days	127,000	23%
over 90 days	85,000	60%

The balance in the allowance for doubtful accounts at January 1, year 1, was \$62,000. The activity in this account during year 1 consisted of the write-off of accounts valued at \$19,000 and a recovery of \$4,000 in accounts that were written off in previous years.

The Lambert accounting staff identified the following unrecorded adjustments while performing the year-end review of accounts receivable balances:

- An account receivable for \$12,000 that was invoiced in February, year 1 was deemed uncollectible because the customer was declared bankrupt on November 30, year 1. The balance has not yet been written off.
- An account receivable for \$5,000 that was invoiced in August, year 1 was collected. However, it was not properly removed from the accounts receivable subsidiary ledger and the aging analysis.

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Situation

Allowance Calculation

Journal Entry

Communication

As a result of the change in the Lambert credit policy during year 1, the CFO believes that the estimated percentage uncollectible for each aging category should be increased by two percentage points.

Complete the following spreadsheet to calculate the allowance for doubtful accounts at December 31, year 1. For each shaded cell in columns C, D, E, and F, enter the appropriate values. The totals in column B will calculate automatically based on your entries in columns C through F. If there is nothing to enter in a particular cell, enter a zero (0).

	A	B	C	D	E	F
1		Total	0 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
2	Accounts receivable					
3	Adjustments					
4	Adjusted accounts receivable					
5	Estimated percentage uncollectible					
6	Allowance for doubtful accounts					

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Situation

Allowance Calculation

Journal entry

Communication

Assume that the Lambert accounting staff has already made all necessary adjusting entries at December 31, year 1, with the exception of the adjustment to record the current-year's bad debt expense. Use the information in the Situation and the values you calculated in the Allowance Calculation tab to prepare the journal entry that records the bad debt expense for year 1, if any.

- To enter an account, choose the account title from the list provided.
- Insert the correct debit and credit values in the appropriate shaded cells in the form.
- Some shaded areas may not be used and certain accounts may be used more than once.

	A	B	C
1	Account	Dr.	Cr.
2			
3			
4			
5			
6			

<u>Account Title Choices</u>	
Accounts receivable	Miscellaneous income
Allowance for doubtful accounts	Miscellaneous expense
Bad debt expense	No entry required
Cash	Sales

Situation

Allowance Calculation

Journal entry

Communication

Ocean Co. is considering purchasing a less than 100% interest in Malibu Corp. Ocean's CEO has asked for your guidance in understanding the requirements for preparing consolidated financial statements. In a memo to the CEO, explain the criteria for determining the conditions under which Ocean Co. would consolidate an ownership interest in Malibu Corp.

Write your communication in the area provided.

ABC Spelling Undo Redo Cut Copy Paste

Memorandum

To: CEO, Ocean Co.
 Subject: Consolidated Financial Statements



Research

A recently issued demographic report indicates that there is a reasonable probability that Lambert's business may be adversely impacted in the future. The company's controller wants to begin accruing a general contingency reserve now for unspecified business contingencies, such as the potential decline in business that may occur in the future. Find authoritative guidance as to whether or not such an accrual is allowed under GAAP.

Paragraph Reference Answer: _____

Solution 1 MULTIPLE-CHOICE ANSWERS

1. (c) This practice follows the accounting concept of matching. The matching concept is a basic accounting principle that believes for income to be stated fairly, all expenses incurred in generating revenues for a period must be recognized in that same period. Consistency provides for interperiod comparability and the identification of trends. Going concern is an underlying environmental assumption that the business is not expected to liquidate in the near future. The concept of substance over form means that the financial statements reflect the financial reality of the entity (the economic substance) rather than the underlying legal form of transactions or events. (Chapter 1-1-3, CSO: 1.1.2)

2. (a) A single-step income statement does not set forth various intermediate levels of income like a multiple-step format. In a single-step format revenues are grouped under one classification while expenses are grouped under another classification. Sales should be reported net of any returns and allowances and Dart should report total revenues of \$250,000. Purchase discounts have nothing to do with sales revenue, and if it were a sales discount, sales are recorded net of any discounts. Recovery of accounts written off would merely adjust the allowance for uncollectible accounts and not affect total revenues. (Chapter 11-3-5, CSO: 1.2.3)

3. (b) Collection of a note receivable from a related party would be reported as an investing activity. Collection of proceeds from a note payable would be reported as a financing activity. Collection of an overdue account receivable from a customer and a tax refund from the government would be reported as operating activities. (Chapter 14-2-2, CSO: 1.2.4)

4. (c) In converting cash paid for operating expenses from the modified cash-basis to accrual-basis adjustments must be made for the changes in prepaid expenses and accrued liabilities from the beginning of the year to the end of the year. An increase in prepaid expenses would require a minus \$5,000 (the difference between \$15,000 and \$10,000) adjustment to derive the accrual basis. An increase in accrued liabilities would require a plus \$20,000 (the difference between \$25,000 and \$5,000) adjustment to derive the accrual basis. [$\$150,000 - \$5,000 + \$20,000 = \$165,000$] (Chapter 11-1-2, CSO: 1.3.0)

5. (d) Goods purchased f.o.b. shipping point should be included in inventory when the goods are shipped. It states the goods are in transit, so they have been shipped. The goods were erroneously excluded from ending inventory, when they should have been included, meaning that inventory is understated. Inventory is an asset, so assets are understated. An understated inventory also would lead to an overstated cost of goods sold (goods available for sale – ending inventory = cost of goods sold). An overstated cost of goods sold would lead to an understated gross profit (revenue – cost of goods sold = gross profit) which in turn results in an understated retained earnings. (Chapter 3-1-2, CSO: 2.3.0)

6. (a) Subsequent reversal or restoration of a previously recognized impairment loss is prohibited. (Chapter 4-4-1, CSO: 2.4.0)

7. (a) A trademark is an identifiable tangible asset. With an externally acquired trademark, normally the acquisition costs are capitalized and amortized over the useful life of the trademark. If an intangible asset has an indefinite life, as is the case with the trademark in this question, it is not amortized but rather tested at least annually for impairment until its useful life is determined to be no longer indefinite. If the trademark had been internally developed the costs would have been expensed as incurred. (Chapter 5-1-3, CSO: 2.6.0)

8. (c) Accounts payable is a liability account incurred in obtaining goods and services from vendors in the entity's ordinary course of business. Accounts payable should reflect the cost of those goods or services that have been appropriately included in inventory (or other asset account) or have been expensed. The \$50,000 debit for goods to be manufactured should not have been posted to the accounts payable account. The \$50,000 payment would be classified as a prepaid asset and not as a reduction of any liability because the goods haven't been received yet. Adding the \$50,000 to the \$850,000 brings the accounts payable account to \$900,000 on December 31. The \$45,000 does not go into accounts payable until January 2 of the next year because the goods were shipped f.o.b. destination. Under an f.o.b. destination contract, the goods and related liability are not recorded until the goods are received. (Chapter 7-1-3, CSO: 2.7.0)

9. (c) The \$264,200 payment includes both principal and interest. The amount of interest is $\$1,000,000$ (amount of note) \times 0.09 (the 9% interest) \div 4 (payments are quarterly) = $\$22,500$. Subtracting $\$22,500$ from $\$264,200$ leaves $\$231,700$ as principal. Subtracting the $\$231,700$ of principle from the $\$1,000,000$ note balance results in $\$758,300$ should be reported as note payable on the December 31 balance sheet. (Chapter 7-1-3, CSO: 2.9.0)

10.(b) An asset retirement obligations (ARO) must be recorded at fair value in the accounting period in which it occurs and in which its amount can be reasonably measured. If an active market for the ARO doesn't exist to provide fair value, the expected present value technique using discounted cash flows is the best way to determine the fair value of the asset. AROs incur depreciation and accretion expenses each year. Accretion expense is offset with an increase to the liability account, and, at the end of the asset's life, the liability account will have a balance equal to the amount needed to settle the retirement obligation. So the amount reported for the asset retirement obligation in this year's balance sheet would be the starting amount of $\$257,000$ from last year's financial statements less $\$87,000$ paid towards settlement of previously recorded AROs plus the $\$68,000$ cash flow estimate for newly acquired AROs plus the $\$26,000$ accretion expense. $\$257,000 - \$87,000 + \$68,000 + \$26,000 = \$264,000$ (Chapter 7-2-5, CSO: 2.4.0)

11.(a) Using the percentage-of-completion method of accounting for long-term construction contracts an excess of progress billings over related costs and income recognized constitutes a current liability. The amount of income to be recognized for the first year would be the amount of actual costs divided by the estimated total costs times the total estimated contract income ($\$2,000,000 \div \$8,000,000 \times \$9,000,000 = \$2,250,000$). The $\$1,800,000$ of progress billings does not exceed the amount of income to be recognized so there would be $\$0$ current liability recognized at year-end from this contract. (Chapter 12-1-2, CSO: 2.12.0)

12.(c) Gain contingencies should be disclosed but not recognized as income. Care should be taken to avoid misleading implications as to the likelihood of realization. (Chapter 7-1-5, CSO: 3.3.0)

13.(c) A security is dilutive if the inclusion of the security in the computation of earnings per share (EPS) results in a smaller EPS or increases loss per share. Categories of potentially dilutive securities include 1) convertible securities where the if-converted method is used, 2) options, warrants, and their equivalents where the treasury stock method is used, and 3) contingently issuable shares. The cumulative 8%, \$50 par preferred stock does not qualify as a potentially dilutive security so it must be one of the other three possible choices. To decide which security would be dilutive you need to look at the per share effect of each. The ten percent convertible bonds would increase the amount of income available to common stockholders by $\$70$ [$\$1,000$ bond \times $10\% = \$100$, then $- (\$100 \times 30\%$ tax effect)] and the weighted average number of shares outstanding by 20 shares for each bond converted. The $\$70 / 20 =$ a per share effect of $\$3.50$. The seven percent convertible bonds would increase the amount of income

available to common stockholders by \$49 (\$1,000 bond \times 10% = \$70, then $-$ (\$70 \times 30% tax effect)) and the weighted average number of shares outstanding by 40 shares for each bond converted. The $\$49 / 40 =$ a per share effect of \$1.225. The six percent convertible preferred stock would increase the amount of income available to common stockholders by \$6 (\$100 bond \times 6%) and the weighted average number of shares outstanding by 4 shares for each preferred share converted. The $\$6 / 4 =$ a per share effect of \$1.50. Convertible preferred stock adjustments do not have tax effects. Only the seven percent convertible bonds have a dilutive effect because their per share effect of \$1.225 is less than the basic EPS of \$1.29. (Chapter 15-3-3, CSO: 3.5.0)

14.(a) An award of equity interests in exchange for employee services is considered a compensatory share-based payment plan. With a compensatory share-based payment plan the compensation cost is recognized using the fair value method of option pricing and the measurement date is the date of the grant. (Chapter 10-5-3, CSO: 3.6.0)

15.(d) The recognition of a liability, or asset, is required if the projected benefit obligation differs from the fair value of plan assets for a defined benefit pension plan. A defined pension plan that is underfunded indicates the projected benefit obligation exceeds the fair value of plan assets and a liability is required. A \$500,000 increase in the fair value of plan assets would lower the amount underfunded to only \$300,000 and would in effect decrease the liabilities of the entity. (Chapter 9-2-3, CSO: 3.6.0)

16.(a) Credit risk is the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. An entity must disclose all concentrations of credit risk arising from all financial instruments. Group concentrations of credit risk exist if a number of counterparties are engaged in similar activities and have similar economic characteristics that would affect their ability to meet contractual obligations affected by changes in economic or other conditions. Market risk is the possibility that future changes in market prices may make a financial instrument less valuable or more onerous. An entity is encouraged, but not required, to disclose quantitative information about the market risks of financial instruments. There is no note disclosure for risk of measurement uncertainty here. Accounts receivable uses an allowance for doubtful accounts to account for uncertainty of collection. There is no off-balance sheet risk of accounting loss here. Off-balance sheet risk is the risk of accounting loss from a financial instrument that exceeds the amount recognized for the instrument in the balance sheet. (Chapter 2-7-1, CSO: 1.2.5)

17.(c) The cost of assets constructed for the use of the business should include all directly related costs; cost of direct materials, cost of direct labor, additional overhead incurred, and interest costs incurred during the construction period. If the average accumulated expenditures of an asset exceed the amount of any specific borrowings associated with the asset, the excess should be capitalized at the weighted average of interest rates applicable to other borrowings of the business. There was no specific borrowing mentioned, so the interest rate would simply be the weighted average. $((\$6,000,000 \times 0.08) + (\$8,000,000 \times 0.09)) / \$14,000,000 = 0.0857$. (Chapter 4-2-1, CSO: 3.11.0)

18.(c) Each interim period should be viewed as an integral part of an annual period and not as a separate, independent period. At the end of each interim period, an entity should make its best estimate of the effective tax rate expected to be applicable for the full fiscal year. This estimated tax rate should be used to provide for income taxes on a current year-to-date basis. Bard had an estimated effective tax rate of 25% and current year-to-date income of \$30,000. $\$30,000 \times .25 = \$7,500$ for current year-to-date income tax expense. Bard reported \$1,500 income tax expense already in the first quarter. $\$7,500 - \$1,500 = \$6,000$ income tax expense should be reported for the second quarter. (Chapter 11-5-1, CSO: 3.12.0)

19.(d) When there is a firm commitment to purchase goods in a future period at a set price (i.e., an enforceable contract exists), any loss from a drop in the market value of such goods, or cancellation of the contract by the purchaser, should be recognized in the current period. The contract guaranteed LTTI purchase 200,000 units per year, so LTTI would recognize a loss for the 520,000 units that it had guaranteed to purchase throughout the life of the contract but had not yet purchased (120,000 current year units + 200,000 year 2 units + 200,000 year 3 units = 520,000 units). $520,000 \times \$0.10 = \$52,000$ (Chapter 3-2-2, CSO: 3.3.0)

20.(a) In governmental funds, revenues are additions to fund assets or decreases in fund liabilities (except from other financing sources) that increase the residual equity of the fund—inflows (sources) of fund working capital. Expenditures are increases in fund liabilities or decreases in fund assets (except for other financing uses) that decrease the residual equity of the fund—outflows (uses) of fund working capital. Expenditures include capital outlays for general fixed assets and repayment of general long-term debt principal. The purchase of fixed assets would have an effect on the excess of revenues over expenditures. The other choices would involve interfund transfers and the use of either other financing sources or other financing uses. (Chapter 18-1-3, CSO: 4.2.2)

21.(b) State appropriations to a state university choosing to report as engaged only in business-type activities would be reported as nonoperating revenues. The funds weren't earned so they couldn't be considered as operating revenues. Capital contributions are not used in governmental accounting. Other financing sources deals with interfund transfers, not appropriations from outside the unit. (Chapter 18-4-1, CSO: 4.5.0)

22.(a) There are various types of non-exchange transactions for governmental units; imposed non-exchange transactions, government-mandated non-exchange transactions, and voluntary non-exchange transactions. The difference between an exchange transaction and a non-exchange transaction is the relationship between the amount of value given and received. In an exchange transaction the presumption is the amount of value given and received is the same. A non-exchange transaction does not involve an exchange of equal value. (Chapter 18-3-1, CSO: 4.4.6)

23.(c) Contributed services shall be recognized as revenue if the services received (a) create or enhance nonfinancial assets or (b) required specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Services requiring specialized skills are provided by accountants, architects, carpenters, doctors, electricians, lawyers, nurses, plumbers, teachers, and other professionals and craftsmen. The AICPA gave \$12,500 as the unofficial correct answer. While certainly the \$8,000 of veterinarian care would be included in the revenue, the \$4,500 for board members to prepare books for an audit could be debatable. If the \$4,500 was for accountants or a bookkeeper to prepare the books then it would certainly be included in revenue, but here there isn't any definitive evidence that the board members have the skills to prepare books. Certainly a registered nurse volunteering as receptionist and teacher providing dog walking would not qualify as contribution revenue. Editor's note: The AICPA examiners instruct candidates to select the best solution choice possible. If candidates encounter what they believe are errors or ambiguities in questions during their actual exams, they should bring them to the attention of the examiners in accordance with the procedures outlined on the AICPA's exam web site and in the *Reporting Candidate Concerns* section of the *Uniform CPA Examination Candidate Bulletin*. (Chapter 20-1-3, CSO: 5.2.1)

24.(c) Generally, contributions received are measured at their fair values and recognized as revenues or gains in the period received. (Chapter 20-1-3, CSO: 5.2.2)

25.(c) All investments in debt and equity securities that have a readily determinable market value are required to be measured at fair value. Gains and losses on the investments are included in the statement of activities as increases and decreases, respectively, in unrestricted net assets unless the use of the securities is temporarily or permanently restricted. (Chapter 20-1-5, CSO: 5.2.4)

Solution 2 MULTIPLE-CHOICE ANSWERS

26.(a) Information is relevant if it is capable of making a difference in a decision by helping users to form predictions about the outcomes of past, present, and future events or to confirm or correct prior expectations. Components of relevance are timeliness and either predictive value or feedback value. Information is reliable when it represents what it purports to represent, couple with an assurance for the user that it has that representational quality. Components of reliability are representational faithfulness, verifiability, and neutrality. (Chapter 1-6-3, CSO: 1.1.2)

27.(c) An entity must classify items of other comprehensive income (OCI) by their nature. One of the classifications is foreign currency which includes foreign currency translation adjustments and gains and losses on foreign currency transactions that are designated as and are effective as, economic hedges of a net investment in a foreign entity. Unrealized holding gains and losses included in OCI include unrealized holding gains and losses on available-for-sale (AFS) securities; not trading securities. Also included in OCI are unrealized holding gains and losses that result from a debt security being transferred into the AFS category from the held-to-maturity (HTM) category; not HTM category to AFS category. For pensions, include in OCI is the amounts of net gain or loss, net prior service cost or credit, and net transition asset or obligation that are expected to be recognized as components of net periodic benefit cost; not the difference between the accumulated benefit obligation and the fair value of pension plan assets. (Chapter 11-4-2, CSO: 1.2.3)

28.(b) Investing activities include a) making and collecting loans, b) acquiring and disposing of property, plant, and equipment, and other productive assets, and c) purchases, sales, and maturities of debt and equities (excluding those acquired specifically for resale); these would include available-for-sale and held-to-maturity securities. An increase in accounts receivable would be classified as an operating activity. Payment of a cash dividend and issuance of common stock to shareholders would be classified as financing activities. (Chapter 14-2-2, CSO: 1.2.4)

29.(b) Accrual accounting recognizes and reports the effects of transactions and other events on the assets and liabilities of a business enterprise in the time periods to which they relate rather than only when cash is received or paid. The accrual-based revenue for year 2 would be all the \$275,000 total cash receipts from customers for year 2 sales (\$200,000 in year 2 + \$75,000 in year 3 = \$275,000). (Chapter 11-1-1, CSO: 1.3.0)

30.(c) Receivables may be pledged as security for loans. Control of the receivables is retained and collections on the receivables are usually required to be applied to a reduction of the loan. Good Neighbor Financing could take title to the receivables if Milton doesn't pay the loan, does not assume the responsibility of collecting the receivables, and does not take title to the receivables until the loan is repaid. (Chapter 2-4-5, CSO: 2.2.0)

31.(a) Factoring is similar to a sale of receivables because it is generally without recourse and the factor generally handles the billing and collection function. Aloe would receive \$68,000 from the factored receivables. The \$80,000 factored amount less \$8,000 (10% as an allowance for sales returns) and less \$4,000 (for the 5% commission charged) equals \$68,000. (Chapter 2-4-4, CSO: 2.2.0)

32.(a) A consignment is a transfer of goods from the owner (consignor) to another person or entity (consignee) who acts as a sales agent for the owner in a principal-agent relationship. The transfer is not a sale and the consignee never has title to the goods. When the consignee sells the goods, title passes from the consignor to the buyer. Thus, goods held on consignment should be included in the ending inventory of the consignor, not the consignee. Also, the goods should be included in cost of goods sold of the consignor, never the consignee, when transferred to the buyer and not the consignee. (Chapter 12-3-1, CSO: 2.3.0)

33.(d) Assets are to be recorded at their acquisition cost. Acquisition cost is defined as the cash price, or equivalent, plus all costs reasonably necessary to bring it to the location and to make it ready for its intended use. Both the \$12,000 rearrangement cost and \$3,000 removal cost were necessary to bring

the asset to its location and make it ready for its intended use. Talton would capitalized \$200,000 (\$185,000 + \$12,000 + \$4,000 = \$200,000). (Chapter 4-2-1, CSO: 2.4.0)

34.(c) Accounting for the voluntary disposal of an operational asset usually involves crediting the asset account for the cost of the asset, removing the accumulated depreciation by a debit to that account, debiting the appropriate account for any proceeds received, and recognizing a gain or loss on disposal. The gain or loss would normally simply be part of continuing operations, as is the case in this scenario. The proceeds would not be a reduction of the cost of a new warehouse; that would be a completely different transaction. The proceeds would only be part of a gain from discontinued operations if the warehouse was part of operations of a component that has been or is planned to be disposed. Extraordinary gains and losses are only for transactions that are both unusual and nature and infrequent in occurrence. The sale of property is a normal, recurring event. (Chapter 4-5-1, CSO: 2.4.0)

35.(b) Recoverability is associated with an impairment loss. An impairment loss is recognized only if the carrying amount of a long-lived asset is not recoverable and exceeds its fair value. The carrying amount (book value) is not recoverable if it exceeds the sum of the undiscounted cash flows expected to result from the use and eventual disposition of the asset. That assessment shall be based on the carrying amount of the asset at the date it is tested for recoverability. A long-lived asset (asset group) shall be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. (Chapter 4-4-1, CSO: 2.4.0)

36.(b) A copyright is an exclusive right granted by the federal government giving the owner protection against the illegal production by others. Although the copyright period is for the life of the creator plus 70 years, the cost of a copyright should be amortized over its useful life. Generating positive cash flows for approximately 25 years would indicate a useful life of 25 years for the copyright. (Chapter 5-1-1, CSO: 2.6.0)

37.(c) Goodwill is not amortized; it is tested for impairment at least annually using a two-step process. The first step is a screen for potential impairment and the second step measures the amount of impairment, if any. The first step is to compare the reporting unit's fair value with its carrying amount, including goodwill. If the fair value exceeds its carrying amount, the reporting unit's goodwill is considered not impaired and no further action is necessary. There is no gain ever associated with goodwill. If the fair value is less than the carrying amount the second step compares the implied fair value of the reporting unit's goodwill with its carrying amount. If the carrying amount exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to the excess. The loss recognized cannot exceed the goodwill's carrying amount. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Subsequent reversal of previously recognized goodwill impairment is prohibited. (Chapter 5-1-3, CSO: 2.6.0)

38.(b) Earnings per share (EPS) data is required to be presented for all periods for which an income statement or summary of earnings is presented. An entity with a complex capital structure is required to present both basic and diluted EPS for income from continuing operations and for net income on the face of the income statement. There amount of market capitalization or net income makes no difference. (Chapter 15-3-4, CSO: 3.5.0)

39.(b) A derivative instrument is an instrument or other contract that has the following three characteristics: 1) at least one underlying and at least one notational amount or payment provision or both, 2) requires no initial net investment, or one that is smaller than would be required for other types of contracts expected to have a similar response to market factor changes, and 3) requires or permits net settlement, can be readily settled net by a means outside the contract, or provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement. (Chapter 2-7-1, CSO: 3.8.0)

40.(d) Pretax financial statement income is determined on the accrual basis. Most revenues and expenses are reported on the tax return in the same period that they are reported on the income statement. However, tax laws often differ from the recognition and measurement requirements of financial accounting standards, and it is common to find differences between the amount of pretax financial income and the amount of taxable income for a period. The \$60,000 difference for officer's life insurance

premiums is a permanent difference that does not give rise to any deferred tax assets or liabilities. The \$40,000 difference for rental income received in advance is a temporary difference that will result in a deductible amount when the liability is settled. The income tax expense for the year is the \$400,000 taxable income \times the 30% tax rate = \$120,000. (Chapter 13-1-5, CSO: 3.10.0)

41.(b) A temporary difference occurs when an item is included in the calculation of net income in one year and in taxable income in a different year. It is the difference between the tax basis of an asset or liability and its reported amount in the financial statements that will result in taxable or deductible amounts in future years when the reported amount of the asset is recovered or liability is settled. An item included in the calculation of net income, but is neither taxable nor deductible is a permanent difference. An item that is no longer taxable due to a change in the tax law is not a temporary difference. Although the accrual method of accounting is used for pretax for financial statement income, that in itself does not cause a temporary difference. The pretax financial income and taxable income could be the same amounts. (Chapter 13-2-1, CSO: 3.10.0)

42.(c) Discontinued operations and extraordinary items should be included in the determination of net income for the interim period in which they occur. Discontinued operations and extraordinary items should not be prorated among interim periods. Disposal of a segment of a business (discontinued operations) and extraordinary, unusual, or infrequently occurring items are disclosed in the notes to interim financial statements. (Chapter 11-5-3, CSO: 3.12.0)

43.(d) A noncancellable lease with a transfer of title is considered a capital lease. The lessor, Able, does not record depreciation expense. Instead the lessee, Baker, would amortize the equipment using the lessee's normal depreciation policy for similar owned assets. Able would record interest revenue related to the lease whether it was treated as a sales-type lease or direct financing-type lease. (Chapter 8-2-2, CSO: 3.13.0)

44.(b) Research activities are those aimed at the discovery of knowledge that will be useful in developing or significantly improving products or processes. Development activities are those concerned with translating research findings and other knowledge into plans or designs for new or significantly improved products or processes. Future economic benefits deriving from research and development (R&D) activities, if any, are uncertain in their amount and timing. Due to these uncertainties, most R&D costs are required to be charged to expense the year in which incurred. The major exception is that assets recorded for R&D costs with alternative future uses should be amortized over their useful lives by periodic charges to R&D expense. Another exception is that R&D costs conducted for others under contract are not expensed as R&D costs. The only items that qualify as R&D are the salaries of laboratory employees researching how to build the new car and the design, testing, and construction of a prototype. (\$250,000 + \$400,000 = \$650,000) (Chapter 5-2-2, CSO: 3.16.0)

45.(b) An enterprise shall report separately information about an operating segment that meets any of the following quantitative thresholds: a) its reported revenues, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments, b) the absolute amount of its profit or loss is 10 percent or more of the greater of (1) the combined reported profit of all operating segments that did not report a loss or (2) the combined reported loss of all operating segments that did report a loss, and 3) its assets are 10 percent or more of the combined assets of all operating segments. (Chapter 11-6-1, CSO: 3.17.0)

46.(d) Enterprise funds must be used to account for a government's business-type operations that are financed and operated like private businesses—where the government's intent is that all costs of providing goods or services to the general public on a continuing basis are to be financed or recovered primarily through users charges. Governments are permitted to account for virtually any type of self-contained business-type activity in enterprise funds if it prefers to do business-type accounting rather than general government accounting. An enterprise fund is a proprietary fund. A special revenue fund is used to account for revenues that are externally restricted or designated by the legislative body for specific general government purposes other than capital projects. The general fund is the primary governmental fund used to account for most routine operations of the governmental entity. The special revenue fund and general fund are governmental-type funds. An internal service fund is also a proprietary fund like an

enterprise fund. Internal service funds are used to account for in-house business enterprise activities; that is, to account for the financing of goods and services provided by one government department or agency to other departments or agencies of the government on a cost reimbursement basis. (Chapter 19-2-3, CSO: 4.1.2)

47.(d) Every government entity is required to prepare and publish, as a matter of record, a comprehensive annual financial report (CAFR) that encompasses all funds of the primary government. The CAFR includes MD&A, basic financial statements, and RSI. Most government-owned public utilities must be accounted for through enterprises funds, so the financial statements for enterprise funds would be required. (Chapter 18-2-7, CSO: 4.2.1)

48.(a) Transfers are nonreciprocal shifts of resources among funds that are not intended to be repaid. All transfers must be reported as either other financing sources or other financing uses. The general fund would report the payment to the pension trust fund and purchase of equipment as expenditures. (Chapter 19-4-2, CSO: 4.4.4)

49.(d) An endowment fund is used to account for the principal of gifts or bequests accepted with donor stipulations that (a) the principal is to be maintained intact (permanent), and the earnings may be expended for unrestricted purposes and/or specified restricted purposes. Cobb stipulated that the income of \$8,000 must be used for older horses that can no longer race so that contribution revenue would be restricted. (Chapter 20-6-2, CSO: 5.2.1)

50.(b) All expenses for a nongovernmental not-for-profit organization are reported as decreases in unrestricted net assets. Operating expenses would not be associated with any restrictions and are not reported as a contra-account to associated revenues. (Chapter 20-2-3, CSO: 5.2.3)

Solution 3 MULTIPLE-CHOICE ANSWERS

51.(b) The Form 10-K is an annual report that gives a comprehensive summary of a public company's performance. The maximum number of days after the company's fiscal year end that the company has to file the Form 10-K with the SEC depends on the category of the filer. There are three categories of filers: 1) non-accelerated filers, 2) accelerated filers, and 3) large accelerated filers. Non-accelerated filers must file the Form 10-K with the SEC within 90 days after the end of the company's fiscal year. Non-accelerated filers are issuers that have a public float of less than \$75 million. Accelerated filers must file the Form 10-K with the SEC within 75 days after the end of the company's fiscal year. Accelerated filers are issuers that have a public float of at least \$75 million but less than \$700 million. Large accelerated filers must file the Form 10-K with the SEC within 60 days after the end of the company's fiscal year. Large accelerated filers are issuers that have a public float of \$700 million or more. (No previous chapter association—new content, new CSO: 1.4.0)

52.(c) The Form 10-Q is a report of a public company's performance that must be filed quarterly with the SEC. It includes unaudited financial statements and provides a continuing view of the company's financial position during the year. In addition to the most recent quarter end balance sheet, a company is required to present the balance sheet for the end of the preceding fiscal year on the Form 10-Q. (No previous chapter association—new content, new CSO: 1.4.0)

53.(d) For a first-time adopter of IFRS, all the adjustments required to present its opening IFRS statement of financial position should be recognized directly in retained earnings, or, if appropriate, in another category of equity. (No previous chapter association—new content, new CSO: 1.3.8)

54.(a) In preparing its first IFRS financial statements, a company must report a minimum of three statements of financial position.. (No previous chapter association—new content, new CSO: 1.3.8)

Solution 4 SIMULATION ANSWERS

Allowance Calculation

	A	B	C	D	E	F
1		Total	0 - 30 days	31 - 60 days	61 - 90 days	Over 90 days
2	Accounts receivable	677,000	225,000	240,000	127,000	85,000
3	Adjustments	(17,000)	0	0	0	(17,000)
4	Adjusted accounts receivable	660,000	225,000	240,000	127,000	68,000
5	Estimated percentage uncollectible		0.03 or 3.00	0.11 or 11.00	0.25 or 25.00	0.62 or 62.00
6	Allowance for doubtful accounts	107,060	6,750	26,400	31,750	42,160

Explanations:

Row 2, columns C - F: The December 31, year 1, balance amount for each aging category as provided in the accounts receivable aging analysis given in the situation.

Row 3, columns C - E: No adjustments were necessary for any of these periods.

Row 3, column F: The account receivable for \$12,000 that was invoiced in February, (over 90 days) must be subtracted from accounts receivable because it was deemed uncollectible. Also, the account receivable for \$5,000 that was invoiced in August (over 90 days) must be subtracted from accounts receivable because it was collected but wasn't properly removed from the accounts receivable subsidiary ledger and the aging analysis. $\$12,000 + \$5,000 = \$17,000$

Row 4, columns C - F: The sum of rows 2 and 3 for each column.

Row 5, columns C - F: The estimated percentage uncollectible for each aging category as provided in the accounts receivable aging analysis given in the situation **plus** two percentage points for each category as a result of the change in credit policy during year 1.

Row 6, columns C - F: The result of multiplying rows 4 and 5 for each column.

Journal Entry

	A	B	C
1	Account	Dr.	Cr.
2	Bad debt expense	72,060	
3	Allowance for doubtful accounts		72,060
4			
5			
6			

Explanation:

Regardless of the allowance method used, the same entry is used to record bad debt expense; debit bad debt expense and credit allowance for doubtful (or uncollectible) accounts.

The allowance for doubtful accounts requires a \$107,060 balance at December 31 per our allowance calculation. The account started with a \$62,000 balance, was reduced \$19,000 for the write-off of accounts during the year, increased \$4,000 for the recovery of accounts during the year, and now needs to be reduced \$12,000 for the account invoiced in February that wasn't yet written off. So the $\$62,000 - \$19,000$

+ \$4,000 – \$12,000 = \$35,000 as the balance on December 31. The amount of adjustment required is \$107,060 – \$35,000 = \$72,060.

Communication

To: CEO, Ocean Co.

Re: Consolidated Financial Statements

The degree of influence that the investor is deemed to have over the investee by virtue of the investment determines the method of accounting for that investment. When a company owns stock in another corporation, its investment should be accounted for under one of three methods; the cost method, the equity method, or consolidated financial statements.

The cost method is appropriate where the investor is not deemed to have a significant level of influence over the investee by virtue of the investment. The investor recognizes dividends as income when received.

The equity method is required where the investor is deemed to have significant influence over the investee by virtue of the investment, but consolidated financial statements are not appropriate. Under the equity method, the investor recognizes as income its pro rata share of the investee's earnings or losses in the periods in which they are reported by the investee, while cash dividends received reduce the carrying amount of the investment.

Consolidated financial statements are required when a company owns more than 50% of the voting stock of another firm, with few exceptions. A majority-owned entity shall not be consolidated if control is temporary or does not rest with the majority owner. For example, if the entity is in legal reorganization or in bankruptcy or operates under foreign exchange restrictions, controls, or other governmentally imposed uncertainties so severe that they cast significant doubt on the parent's ability to control the entity.

Consolidated financial statements are considered more meaningful than separate financial statements and necessary for a fair presentation when one of the entities in the consolidated group directly or indirectly has a controlling financial interest in the other entities. All subsidiaries in which a parent has a controlling financial interest shall be consolidated. The purpose of consolidated financial statements is to present the results of operations and the financial position of a parent company and all its subsidiaries as if the consolidated group were a single economic entity.

Research

FAS 5, Par. 14

14. Some enterprises have in the past accrued so-called "reserves for general contingencies." General or unspecified business risks do not meet the conditions for accrual in paragraph 8, and no accrual for loss shall be made. No disclosure about them is required by this Statement.