FINANCIAL ACCOUNTING & REPORTING

CPA2901US3-40

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About Updating Supplement Version 40.3

Information that is only six months old is eligible to be tested on the CPA exam. Updating Supplement Version 40.3 is designed to bring the latest release of material to candidates using our products to prepare for the CPA exam in the Oct-Nov 2011 window. Candidates with the 40th edition and corresponding software (version 14 series) will find the information in this supplement 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.

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.

**Purchase of software required. Call for complete details.* (1-800-404-7231)

Other Sources of Information for Candidates

Due to significant changes to the exam, candidates with the 39th and earlier editions are strongly encouraged to purchase new materials. Candidates choosing to use previous editions of our books must accept responsibility for adequately updating their materials. Candidates should consider the strain that this will add to the already time-consuming process of studying for the exam. Material in the related updating supplements may be reviewed to determine the nature and quantity of information that has changed from one edition to another.

Content Specifications Outline (CSO) Update

The AICPA has updated the reference list at the end of the FAR CSO to include the following:

- Regulation S-K of the Code of Federal Regulations
- Codification of Statements on Auditing Standards: AU Section 623, Special Reports
- FASB Concept Statements
- GASB Concept Statements
- IFRS Framework

These changes are effective July 1, 2011 and only apply to the CSO references. They do not affect the current technical content or weight allocations specified in the CSOs.

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International Testing

Qualified candidates may take the exam in Bahrain, Japan, Kuwait, Lebanon, or the United Arab Emirates. This exam uses the same bank of questions in English as is used in the United States. Foreign exam administration is limited to the last month of the regular two-month window; other restrictions also may apply.

For this purpose, qualified candidates include citizens and long-term residents of the host country as well as U.S. citizens. Other candidates still must travel to United States, Guam, Puerto Rico, or the Virgin Islands to test.

A candidate testing under the international program must promise to complete credential licensure through one of the United States jurisdictions. Candidates may apply through most (but not all) jurisdictions. Jurisdictions participating in the international program are listed on the AICPA's exam web site.

Additional fees to fund the increased cost of foreign administration are expected to be approximately $300 per exam section. Typically, this is less than the cost of travel to the United States.

Countries are selected considering the number of candidates, question confidentiality, host country accounting institution attitude, and the local legal environment. After the examiners consider initial program results, the program may expand to additional countries.

Most jurisdictions require candidates with degrees from schools outside of the United States to have their credentials evaluated by a member of the National Association of Credential Evaluation Services (NACES). View the NASBA web site for a list of NACES members.

Consult the NASBA web site for additional details, including information about eligibility requirements and the exam application process for each jurisdiction.

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Recent FASB Pronouncements

SFAC No. 8, *Conceptual Framework for Financial Reporting*—Chapter 1*, The Objective of General Purpose Financial Reporting,* and Chapter 3*, Qualitative Characteristics of Useful Financial Information,—a Replacement of FASB Concepts Statements No. 1 and No. 2* (Issued 09/10)

This statement is the result of the first phase of a joint project between the FASB and IASB to improve and converge each organization's conceptual framework. The statement addresses the objective and qualitative characteristics of financial reporting. The IASB has revised portions of its framework, while the FASB has superseded Concepts Statement No. 1, *Objectives of Financial Reporting by Business Enterprises*, and No. 2, *Qualitative Characteristics of Accounting Information*, with SFAC 8. As the FASB and IASB complete additional phases of their joint project, new chapters will be added to SFAC 8, and other Concepts Statements will be superseded. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

ASU No. 2010-21, *Accounting for Technical Amendments to Various SEC Rules and Schedules—Amendments to SEC Paragraphs Pursuant to Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules and Codification of Financial Reporting Policies—An Amendment of the FASB Accounting Standards Codification* (Issued 08/10)

This Accounting Standards Update amends various SEC paragraphs pursuant to the issuance of Release No. 33-9026: Technical Amendments to Rules, Forms, Schedules, and Codification of Financial Reporting Policies. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

ASU No. 2010-22, *Accounting for Various Topics—Technical Corrections to SEC Paragraphs—An Announcement made by the staff of the U.S. Securities and Exchange Commission—An Amendment of the FASB Accounting Standards Codification* (Issued 08/10)

This Accounting Standards Update amends various SEC paragraphs based on external comments received and the issuance of SAB 112, which amends or rescinds portions of certain SAB topics. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

ASU No. 2010-23, *Health Care Entities (Topic 954)—Measuring Charity Care for Disclosure—a Consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 08/10)

The amendments in this Update are effective for fiscal years beginning after December 15, 2010. The amendments in this Update should be applied retrospectively to all prior periods presented. Early application is permitted. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

The amendments in this Update require that cost be used as the measurement basis for charity care disclosure purposes and that cost be identified as the direct and indirect costs of providing the charity care. As a result of the amendments in this Update, various techniques will likely be used to determine how the direct and indirect costs are identified, such as obtaining the information directly from a costing system or through reasonable estimation techniques. Therefore, the amendments in this Update also require disclosure of the method used to identify or determine such costs.

Existing guidance does not prescribe a specific measurement basis of charity care for disclosure purposes. The amendments would improve current GAAP by requiring all entities to use the same measurement

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basis of charity care, thus enhancing comparability. A health care entity does not recognize revenue when charity care is provided; accordingly, the amendments in this Update will have no effect on the amounts reported in the primary financial statements.

IFRS does not provide any specific guidance on the disclosure of charity care.

ASU No. 2010-24, *Health Care Entities (Topic 954)—Presentation of Insurance Claims and Related Insurance Recoveries—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 08/10)

The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. A cumulative-effect adjustment should be recognized in opening retained earnings in the period of adoption if a difference exists between any liabilities and insurance receivables recorded as a result of applying the amendments in this Update. The amendments in this Update permit retrospective application. Early application of the amendments in this Update also is permitted. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

This Update addresses the diversity in the accounting for medical malpractice and similar liabilities and their related anticipated insurance recoveries by health care entities that mostly have netted insurance recoveries against the accrued liability, although some have presented the anticipated insurance recovery and the liability on a gross basis. The amendments to Topic 954 clarify that a health care entity should not net insurance recoveries against a related claim liability; the amount of the claim liability should be determined without consideration of insurance recoveries.

IFRS does not permit offsetting of assets and liabilities in the circumstances described in this Update.

ASU No. 2010-25, *Plan Accounting—Defined Contribution Pension Plans (Topic 962)—Reporting Loans to Participants by Defined Contribution Pension Plans—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 09/10)

The amendments in this Update should be applied retrospectively to all prior periods presented, effective for fiscal years ending after December 15, 2010. Early adoption is permitted. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

Participant loans are currently classified as investments. Investments held by a plan, including participant loans, are currently required to be presented at fair value.

In practice, most participant loans are carried at their unpaid principal balance plus any accrued but unpaid interest, which was considered a good faith approximation of fair value. However, some stakeholders questioned whether that measurement conforms to Topic 820, which requires the use of observable and unobservable inputs such as market interest rates, borrower's credit risk, and historical default rates to estimate the fair value of participant loans. Other stakeholders questioned whether the use of those assumptions would result in information that is decision useful.

The amendments in this Update require that participant loans be classified as notes receivable from participants, which are segregated from plan investments and measured at their unpaid principal balance plus any accrued but unpaid interest, rather than at fair value. Participant loans cannot be sold by the plan. Furthermore, if a participant were to default, the participant's account would be reduced by the unpaid balance of the loan, and there would be no effect on the plan's investment returns or any other participant's account balance.

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Participant loans are not as commonly observed outside the United States and IAS 26, *Accounting and Reporting by Retirement Benefit Plans*, does not specifically provide accounting guidance for participant loans. However, IAS 26 acknowledges that there may be some situations in which fair value may not be the most meaningful measurement attribute for plan investments, such as when securities that have a fixed redemption value are acquired to match the obligations of the plan or specific parts of the plan. It also states that estimates of fair value may not be possible in certain situations. IAS 26 does not explicitly require a specific classification of the loans to participants as investments or receivables separately from investments. However, participant loans are generally carried at amortized cost by a plan applying IFRS.

ASU No. 2010-26, *Financial Services—Insurance (Topic 944)—Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 10/10)

The amendments in this Update are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011. The amendments in this Update should be applied prospectively upon adoption. Retrospective application to all prior periods presented upon the date of adoption also is permitted, but not required. Early adoption is permitted, but only at the beginning of an entity's annual reporting period. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

The amendments in this Update specify that certain costs incurred in the successful acquisition of new and renewal insurance contracts should be capitalized. Those costs include incremental direct costs of contract acquisition that result directly from and are essential to the contract transaction(s) and would not have been incurred by the insurance entity had the contract transaction(s) not occurred. Other costs include costs related directly to certain acquisition activities performed by the insurer, such as underwriting, policy issuance and processing, medical and inspection, and sales force contract selling. Additionally, advertising costs are only to be capitalized as deferred acquisition costs if the capitalization criteria for direct-response advertising in Subtopic 340-20 are met.

All other acquisition-related costs—including costs incurred by the insurer for soliciting potential customers, market research, training, administration, unsuccessful acquisition or renewal efforts, and product development—should be charged to expense as incurred. Administrative costs, rent, depreciation, occupancy, equipment, and all other general overhead costs are considered indirect costs and should also be charged to expense as incurred.

The guidance on deferred acquisition costs under IFRS is limited and is subject to significant judgment. IFRS neither prohibits nor requires the deferral of acquisition costs, nor does it prescribe which acquisition costs are deferrable, the period and method of their amortization, or whether an insurer should present deferred acquisition costs as an asset or as a reduction in insurance liabilities.

Under the joint project on accounting for insurance contracts, the Boards have made preliminary conclusions on the accounting for acquisition costs. Those conclusions are tentative and could change upon further deliberation of the overall insurance models proposed by the Boards.

ASU No. 2010-27, *Other Expenses (Topic 720)—Fees Paid to the Federal Government by Pharmaceutical Manufacturers—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 12/10)

The amendments in this Update are effective for calendar years beginning after December 31, 2010, when the fee initially becomes effective. The material in this update was eligible to be tested beginning in the **July-August 2011** exam window.

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The objective of this Update is to address questions concerning how pharmaceutical manufacturers should recognize and classify in their income statement fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The Acts impose an annual fee on the pharmaceutical manufacturing industry for each calendar year beginning on or after January 1, 2011. For reporting entities that are subject to the pharmaceutical fee mandated by the Acts, the amendments in this Update specify that the liability for the fee should be estimated and recorded in full upon the first qualifying sale with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable.

There is no specific guidance in IFRS for the fee covered by this Update. Diversity in practice exists on whether similar fees are presented as an expense or a reduction of revenue under IFRS.

ASU No. 2010-28, *Intangibles—Goodwill and Other (Topic 350)—When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 12/10)

For public entities, the amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. The material in this update was eligible to be tested beginning in the **July-August 2011** exam window.

Upon adoption of the amendments, an entity with reporting units that have carrying amounts that are zero or negative is required to assess whether it is more likely than not that the reporting units' goodwill is impaired. If the entity determines that it is more likely than not that the goodwill of one or more of its reporting units is impaired, the entity should perform Step 2 of the goodwill impairment test for those reporting unit(s). Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings in the period of adoption. Any goodwill impairments occurring after the initial adoption of the amendments should be included in earnings as required by Section 350-20-35.

The amendments in this Update affect all entities that have recognized goodwill and have one or more reporting units whose carrying amount for purposes of performing Step 1 of the goodwill impairment test is zero or negative. The amendments in this Update modify Step 1 so that for those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that an impairment may exist. The qualitative factors are consistent with existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount.

The provisions provide guidance on when to perform Step 2 of the goodwill impairment test for reporting units with zero or negative carrying amounts. Entities that follow IFRS use a different impairment model under IAS 36, *Impairment of Assets*, which is a single-step goodwill impairment test.

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ASU No. 2010-29, *Business Combinations (Topic 805)—Disclosure of Supplementary Pro Forma Information for Business Combinations—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 12/10)

The amendments in this Update are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The material in this update was eligible to be tested beginning in the **July-August 2011** exam window.

The objective of this Update is to address diversity in practice about the interpretation of the pro forma revenue and earnings disclosure requirements for business combinations. The amendments in this Update specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings.

The amendments affect any public entity as defined by Topic 805 that enters into business combinations that are material on an individual or aggregate basis.

IFRS 3, *Business Combinations*, permits, but does not require, pro forma disclosures for the comparative period. IFRS does not require a description of the nature and amount of material, nonrecurring pro forma adjustments.

ASU No. 2011-01, *Receivables (Topic 310)—Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings in Update No. 2010-20—An Amendment of the FASB Accounting Standards Codification* (Issued 01/11)

The deferral in this amendment is effective upon issuance. The material in this update is eligible to be tested beginning in the **October-November 2011** exam window.

The amendments in this Update temporarily delay the effective date of the disclosures about troubled debt restructurings in Accounting Standards Update No. 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses for public entities. The delay is intended to allow the Board time to complete its deliberations on what constitutes a troubled debt restructuring. The effective date of the new disclosures about troubled debt restructurings for public entities and the guidance for determining what constitutes a troubled debt restructuring will then be coordinated.

IFRS does not have guidance on troubled debt restructurings.

ASU No. 2011-02, *Receivables (Topic 310)—A Creditor's Determination of Whether a Restructuring is a Troubled Debt Restructurings—An Amendment of the FASB Accounting Standards Codification* (Issued 04/11)

The amendments in this Update are effective for the first interim or annual period beginning on or after June 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. Early adoption is permitted for public and nonpublic entities. The material in this update is eligible to be tested beginning in the **January-February 2012** exam window.

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In evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist:

1. The restructuring constitutes a concession.
2. The debtor is experiencing financial difficulties.

The amendments to Topic 310 clarify the guidance on a creditor's evaluation of whether it has granted a concession as follows:

1. If a debtor does not otherwise have access to funds at a market rate for debt with similar risk characteristics as the restructured debt, the restructuring would be considered to be at a below-market rate, which may indicate that the creditor has granted a concession.
2. A temporary or permanent increase in the contractual interest rate as a result of a restructuring does not preclude the restructuring from being considered a concession because the new contractual interest rate on the restructured debt could still be below the market interest rate for new debt with similar risk characteristics.
3. A restructuring that results in a delay in payment that is insignificant is not a concession. However, an entity should consider various factors in assessing whether a restructuring resulting in a delay in payment is insignificant.

IFRS does not have guidance on troubled debt restructurings. IFRS 7, *Financial Instruments: Disclosures*, requires the disclosure of the carrying amount of renegotiated debt, which is defined as debt whose terms were renegotiated that otherwise would be past due or impaired without that renegotiation.

ASU No. 2011-03, *Transfers and Servicing (Topic 860)—Reconsideration of Effective Control for Repurchase Agreements—An Amendment of the FASB Accounting Standards Codification* (Issued 04/11)

The guidance in this Update is effective for the first interim or annual period beginning on or after December 15, 2011. Early adoption is not permitted. The amendments in this Update apply to all entities, both public and nonpublic. The material in this update is eligible to be tested beginning in **July-August 2012** exam window.

The main objective in developing this Update is to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity.

The Board determined that the criterion pertaining to an exchange of collateral should not be a determining factor in assessing effective control. The Board concluded that the assessment of effective control should focus on a transferor's contractual rights and obligations with respect to transferred financial assets, not on whether the transferor has the practical ability to perform in accordance with those rights or obligations. The Board also concluded that the remaining criteria are sufficient to determine effective control. Consequently, the amendments remove the transferor's ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity.

The IASB's derecognition guidance is provided under IAS 39, *Financial Instruments: Recognition and Measurement*. The consideration of a transferor's ability to repurchase or redeem financial assets transferred on substantially agreed terms, even in the event of default by the transferee, is not required under IFRS. The amendments in this Update improve convergence by eliminating from U.S. GAAP the need to consider this criterion.

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ASU No. 2011-04, *Fair Value Measurement (Topic 820)—Amendments to Achieve common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* (Issued 05/11)

The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. The material in this update is eligible to be tested beginning in **July-August 2012** exam window.

The amendments in this Update are the result of the work by the FASB and the IASB to align their guidance with respect to fair value measurements and disclosures. The amendments do not require additional fair value measurements and are not intended to establish valuation standards or affect valuation practices outside of financial reporting. ASU 2011-04 supersedes most of the guidance in Topic 820 (formerly FASB Statement No. 157). In general, the amendments clarify certain requirements in Topic 820, but also include some instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. Nonpublic entities will be exempt from much of the new disclosure rules.

The amendments apply to all reporting entities that are required or permitted to measure or disclose the fair value of an asset, a liability, or an instrument classified in a reporting entity's shareholders' equity in the financial statements.

The amendments that clarify how to apply the existing fair value measurement and disclosure requirements in Topic 820 include:

a. Concepts of highest and best use and valuation premise in fair value measurement are relevant only when measuring the fair value of nonfinancial assets.

b. The fair value of an instrument classified within a reporting entity's shareholders' equity should be measured from the perspective of a market participant that holds that instrument as an asset.

c. For fair value measurements categorized within Level 3 of the fair value hierarchy, a reporting entity should disclose quantitative information about the unobservable inputs used in a fair value measurement.

The amendments that change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements, include:

d. A reporting entity that holds a group of financial assets and liabilities that is exposed to market risk (interest rate or currency risk, etc) and to the credit risk of counterparties, may apply an exception to the requirements of Topic 820 for measuring fair value. If a reporting entity manages its financial instruments on the basis of its net exposure, rather than its gross exposure, it may measure fair value at the price that would be received to sell a net asset position for a particular risk or to transfer a net liability position for a particular risk in an orderly transaction between market participants at the measurement date.

e. In the absence of a Level 1 input, a reporting entity should apply premiums or discounts when market participants would do so, pricing the asset or liability consistent with the unit of account in the Topic that requires or permits the fair value measurement. However, adjustments commonly referred to as blockage factors are not permitted in a fair value measurements.

f. A reporting entity must disclosure the following:

    i. For fair value measurements categorized within Level 3 of the hierarchy:

        1. The valuation process used.

        2. A narrative description of the sensitivity of the fair value measurement to changes in unobservable inputs and the interrelationships between those unobservable inputs, if any.

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ii. The use of nonfinancial asset if it differs from the highest and best use assumed in the fair value measurement.

iii. For items that are not measured at fair value in the statement of financial position but for which the fair value is required to be disclosed, the level of the hierarchy in which that measurement is categorized.

ASU No. 2011-05, Comprehensive Income (Topic 220)—Presentation of Comprehensive Income—An Amendment of the FASB Accounting Standards Codification **(Issued 06/11)**

The amendments in this Update should be applied retrospectively. For public companies, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. The material in this update is eligible to be tested beginning in **January-February 2012** exam window.

All nonowner changes in stockholders' equity are to be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that presents total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income.

Entities are required to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. This statement was issued in conjunction with the IASB release of amendments to IAS 1, *Presentation of Items of Other Comprehensive Income.*

ASU No. 2011-06, *Other Expenses (Topic 720)—Fees Paid to the Federal Government by Health Insurers—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 07/11)

The amendments in the Update are effective for calendar years beginning after December 31, 2013. The amendments affect reporting entities that are subject to the fee imposed on health insurers mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act (the Acts). The material in this update is eligible to be tested beginning in **July-August 2014** exam window.

A health insurer's portion of the annual fee mandated in the Acts becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. There is no specific guidance in IFRS for the fee covered by this Update.

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ASU No. 2011-07, *Health Care Entities (Topic 954)—Presentation and Disclosure of Patient Service Revenue, Provision for Bad Debts, and the Allowance for Doubtful Accounts for Certain Health Care Entities—a consensus of the FASB Emerging Issues Task Force—An Amendment of the FASB Accounting Standards Codification* (Issued 07/11)

For public entities, the amendments in this Update are effective for fiscal years and interim periods within those fiscal years beginning after December 15, 2011, with early adoption permitted. The amendments to the presentation of the provision for bad debts related to patient service revenue should be applied retrospectively to all prior periods presented. The material in this update is eligible to be tested beginning in **April-May 2012** exam window.

The amendments in this Update require certain health care entities to reclassify the provision for bad debts associated with patient service revenue from an operating expense to a deduction from patient service revenue (net of contractual allowances and discounts). Additionally, enhanced disclosure about their policies for recognizing revenue and assessing bad debts is required. There is no specific guidance in IFRS for the content covered by this Update.

Recent GASB Pronouncements

***GASB 60, Accounting and Financial Reporting for Service Concession Arrangements* (Issued 11/10)**

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The material in this Update is eligible to be tested beginning in the **July-August 2011** exam window.

The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. As used in this Statement, an SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) in which (1) the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset (a "facility") in exchange for significant consideration and (2) the operator collects and is compensated by fees from third parties.

This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. A transferor reports the facility subject to an SCA as its capital asset, generally following existing measurement, recognition, and disclosure guidance for capital assets. New facilities constructed or acquired by the operator or improvements to existing facilities made by the operator are reported at fair value by the transferor. A liability is recognized, for the present value of significant contractual obligations to sacrifice financial resources imposed on the transferor, along with a corresponding deferred inflow of resources. Revenue is recognized by the transferor in a systematic and rational manner over the term of the arrangement.

GASB 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34* (Issued 11/10)

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Earlier application is encouraged. The material in this Update is eligible to be tested beginning in the **July-August 2011** exam window.

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This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government.

GASB 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (Issued 12/10)

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier application is encouraged. The provisions of this Statement generally are required to be applied retroactively for all periods presented. The material in this Update is eligible to be tested beginning in the **July-August 2011** exam window.

The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements:

1. Financial Accounting Standards Board (FASB) Statements and Interpretations
2. Accounting Principles Board Opinions
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure.

Hereinafter, these pronouncements collectively are referred to as the "FASB and AICPA pronouncements."

This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.*

GASB 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (Issued 06/11)

The objective of this Statement is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

Concepts Statement 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local*

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Governments, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets.

GASB 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53* (Issued 06/11)

The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

Recent IFRS Pronouncements

IFRS *Conceptual Framework for Financial Reporting* (Issued 09/10)

This statement is the result of the first of eight phases in a joint project between the FASB and IASB to improve and converge each organization's conceptual framework. The statement addresses the objective and qualitative characteristics of financial reporting. The IASB has revised portions of its framework, while the FASB has superseded SFAC 1 and SFAC 2 with SFAC 8. The new IFRS Conceptual Framework will combine the new chapters as they are completed with the text carried forward from the 1989 framework. The material in this update was eligible to be tested beginning in the **April-May 2011** exam window.

IFRS 9, *Financial Instruments* (Issued 10/10)

This Statement is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted. IFRS Statement No. 9, *Financial Instruments,* was issued by the International Accounting Standards Board in November 2009. In October 2010, the IASB issued an expanded and amended version. The material in this Update was eligible to be tested beginning in the **July-August 2011** exam window.

The objective of this Statement is to establish principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements for their assessment of the amounts, timing, and uncertainty of an entity's future cash flows. The Statement provides information on: recognition and derecognition; classification; and measurement.

IAS 39 *Financial Instruments: Recognition and Measurement*, sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell nonfinancial items. Many users of financial statements and other interested parties told the Board that the requirements in IAS 39 were difficult to understand, apply, and interpret. It is the intention of the IASB that IFRS 9 will eventually replace IAS 39 in its entirety. However, in response to requests from interested parties that the accounting for financial instruments should be improved quickly, the Board divided its project to replace IAS 39 into three main phases. As the Board completes each phase, it will delete the relevant portions of IAS 39.

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The three main phases of the Board's project to replace IAS 39 are:

(a) Phase 1: Classification and measurement of financial assets and financial liabilities.

(b) Phase 2: Impairment methodology.

(c) Phase 3: Hedge accounting.

In October 2010, the Board added to IFRS 9 the requirements for classification and measurement of financial liabilities:

(a) Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. Under IAS 39, most liabilities were subsequently measured at amortized cost or bifurcated into a host, which is measured at amortized cost, and an embedded derivative, which is measured at fair value. Liabilities that are held for trading (including all derivative liabilities) were measured at fair value.

(b) IFRS 9 requires that if derivatives are not reliably measurable, they are measured at fair value.

(c) The requirements related to the fair value option for financial liabilities were changed to address own credit risk.

Also in October 2010, the requirements in IAS 39 related to the derecognition of financial assets and financial liabilities were carried forward unchanged to IFRS 9.

As a result of the added requirements described above, IFRS 9 and its Basis for Conclusions were restructured. Many paragraphs were renumbered and some were re-sequenced. New paragraphs were added to accommodate the guidance that was carried forward unchanged from IAS 39. Also, new sections were added to IFRS 9 as placeholders for the guidance that will result from subsequent phases of this project. Otherwise, the restructuring did not change the requirements in IFRS 9 issued in 2009. The Basis for Conclusions on IFRS 9 has been expanded to include material from the Basis for Conclusions on IAS 39 that discusses guidance that was carried forward without being reconsidered. Minor necessary edits have been made to that material.

IFRS 10*, Consolidated Financial Statements* (Issued 5/11)

This Statement is effective from January 1, 2013, with earlier application permitted. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

The objective of this Statement is to provide a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27, *Consolidated and Separate Financial Statements,* and SIC-12, *Consolidation-Special Purpose Entities.*

IFRS 10:

- Identifies control as a single basis for consolidation for all types of entities. The definition of control has three elements:
  - Power over an investee;
  - Exposure, or rights, to variable returns from an investee; and
  - Ability to use power to affect the reporting entity's returns.
- States that an investor can control an investee with less than 50% of the voting rights of the investee

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- Sets requirements for situations when control is difficult to assess, such as cases involving potential voting rights, agency relationships, control of specific assets (silos) and circumstances in which voting rights are not the dominant factor in determining control.
- Contains accounting requirements and consolidation procedures, which are carried over unchanged from IAS 27

IFRS 11*, Joint Arrangements* (Issued 5/11)

This Statement is effective upon issuance. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

The objective of this Statement is to improve the accounting for joint arrangements by introducing a principle-based approach that requires a party to a joint arrangement to recognize its rights and obligations arising from the arrangement. This will provide users with greater clarity about an entity's involvement in its joint arrangements by increasing the verifiability, comparability and understandability of the reporting of these arrangements. IFRS 11 supersedes IAS 31, *Interests in Joint Ventures*, and SIC-13-, *Jointly Controlled Entities-Nonmonetary Contributions by Venturers.*

IFRS 12*, Disclosure of Interests in Other Entities* (Issued 5/11)

This Statement is effective from January 1, 2013, with earlier application permitted. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

IFRS 12 is a new and comprehensive standard. The objective is to combine, enhance, and replace the disclosure requirements for subsidiaries, joint arrangements, associates, and unconsolidated structured entities.

IFRS 12:

- Requires a reporting entity to disclose information that helps users to assess the nature and financial effects of the reporting entity's relationship with other entities.
- Establishes disclosure objectives that require an entity to disclose information that helps users:
    - Understand the judgments and assumptions made when deciding how to classify its involvement with another entity;
    - Understand the interest that noncontrolling interests have in consolidated entities; and
    - Assess the nature of the risks associated with interests in other entities.

IFRS 13*, Fair Value Measurement* (Issued 5/11)

This Statement is effective from January 1, 2013, with earlier application permitted. The material in this Update is eligible to be tested beginning in the **January-February 2012** exam window.

The objective of this Statement is to provide clear and consistent guidance for measuring fair value and addressing valuation uncertainty in markets that are no longer active. It also increases the transparency of fair value measurements by requiring detailed disclosures about fair values derived using models.

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This standard was issued as part of the Memorandum of Understanding between the IASB and the FASB. The FASB issued AUS 2011-04, *Fair Value Measurement* (Topic 820), in conjunction with the IASB's release of IFRS 13. The new requirements in IFRS 13 result in IFRS and U.S. GAAP having the same definition and meaning of fair value and the same disclosure requirements about fair value measurements.

The requirements do not extend the use of fair value accounting, but provide guidance on how it should be applied where its use is already required or permitted by other standards with IFRSs or U.S. GAAP.

IFRS 13:

- Measures fair value using the price in the principle market for the asset or liability (i.e., the market with the greatest volume and level of activity) or, in the absence of a principle market, the most advantageous market for the asset or liability.
- Provides detailed guidance for measuring fair value of liabilities, including a description of the compensation that market participants would demand to take on an obligation.
- Allows financial assets and liabilities with offsetting positions in market risks or counterparty credit risk to be measured on the basis of the entity's net risk exposure.
- Classes of assets or liabilities for disclosure purposes are determined on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy (i.e., Level 1, 2, or 3) within which the fair value measurement is categorized.
- Requires a narrative discussion about the sensitivity of a fair value measurement categorized in Level 3 of the hierarchy to changes in significant unobservable inputs and any interrelationships between those inputs that might magnify or mitigate the effect on the measurement. A quantitative sensitivity analysis is required for financial instruments measured at fair value.
- Requires information about an entity's valuation processes for fair value measurements categorized as Level 3.

IAS 19, *Employee Benefits, Amended* (Issued 06/11)

The amendments ensure that the financial statements provide users with a clear picture of an entity's commitments resulting from defined benefit plans. The amendments are effective for financial years beginning on or after January 1, 2013. Early application is permitted. The material in this update is eligible to be tested beginning in **January-February 2012** exam window.

The amendments focus on three key areas:

- Recognition—the elimination of the option to defer the recognition of gains and losses resulting from defined benefit plans (the corridor approach), improving comparability and faithfulness of presentation
- Presentation—streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring remeasurements to be presented in other comprehensive income, thereby separating those changes from change that many perceive to be the result of an entity's day-to-day operations.
- Disclosures—the improvement of disclosure requirements that will better show the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

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Presentation of Items of Other Comprehensive Income—Amendments to IAS 1 Presentation of Financial Statements **(Issued 06/11)**

The amendments require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the profit or loss section of the income statement. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. Requiring OCI to be presented as part of, or in close proximity to, the profit or loss (income) statement will make it easier for users to assess the impact of OCI items on the overall performance of an entity and improve comparability between IFRSs and U.S. GAAP. The amendments are effective for financial years beginning on or after July 1, 2012. The material in this update is eligible to be tested beginning in **January-February 2013** exam window. This statement was issued in conjunction with the FASB Update to Topic 220: *Presentation of Comprehensive Income*.

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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 2-48, Answer 17 (8779). The response "d" is correct as shown in the text. The first journal entry shown in the explanation should be:

Accounts Receivable—Joe Doe	XX	
Allowance for Uncollectible Accounts		XX
To reopen account to the balance it had when written off		

Page 2-28, Example 14, item (d) should read: "Servicing asset (carrying value), not (fair value).

Chapter 4: Page 4-39, Solution to Simulation 4-5 should be as follows:

14	**Equipment destroyed by fire**		
15	**X**	Original cost of equipment	$17,500
16	**X**	Accumulated depreciation	3,500
17	**X**	Insurance proceeds	15,000
18		Cost to replace equipment	23,000
19		**Gain or loss recognized**	**$1,000**

Editor's Note: Items marked "X" are considered in the related calculations.

Page 4-22, Simulation 4-2, QID (5321), the last bullet point should read: "During year 3, Mink paid $60,000 and gave a plot of undeveloped land with a carrying amount of $340,000 and a fair value of $480,000 to Klub Co. in exchange for a plot of undeveloped land with a fair value of $520,000. The land was carried on Klub's books at $360,000. **Assume this transaction has commercial substance."**

Chapter 6: Page 6-37, solution 6-43 QID (8591), the second sentence should read "Vent would debit Cash $450,000, …", not credit cash.

Page 6-44, Simulation Solution 6-5 (9112). The last response in the simulation for "Net income before taxes" should be $413,782, not $431,782 ($1,000,000 sales – $500,000 expenses – $86,218 interest expense).

Chapter 8: Page 8-63, Simulation Solution 8-4 QID (4100 [5]). The second line of the explanation should use 9%, not 10%, and should read as follows:

Less: 9% of fair value of plan assets (i.e., the market-related value of plan assets), 1/1 ($960,000* × 9%)	(86,400)

Chapter 9: Page 9-46, Simulation 9-3, QID (8372), July 1 activity should read: "On July 1, year 6, Quonset declared and issued a 16% stock dividend. The stock had a market value of $12 per share."

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Page 9-55, Solution to 9-42, QID (9027). Second journal entry for December 31, Year 3 should be:

Cash (1,000 shares × $40)	40,000	
Stock Options Outstanding	32,000	
Common Stock (1,000 × $10)		10,000
Add'l Paid-in Cap., Common Stock (to balance)		62,000

Page 9-64, Solution to Simulation 9-3, QID (8372). The revised solution is as follows (corrected numbers are in bold):

Accounts	Number of shares issued and outstanding	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Treasury stock	Total stockholders' equity
Beginning balances	750,000	750,000	3,000,000	3,500,000			7,250,000
Issuance of shares for property	15,000	15,000	195,000				210,000
Purchase of treasury stock	-25,000					-250,000	-250,000
Property dividends distributed				-75,000			-75,000
Stock dividend issued	118,400	118,400	**1,302,400**	**-1,420,800**			0
Cash dividend				-858,400			-858,400
Net income for the year				1,332,000			1,332,000
Unrealized gain (loss) on marketable securities available for sale					75,000		75,000
Ending balances	858,400	883,400	**4,497,400**	**2,477,800**	75,000	-250,000	7,683,600

Chapter 10: Page 10-40, Answer 48 (8770). There was no answer listed. The correct response should be "c," with the following explanation: "The installment method is an exception of normal GAAP revenue recognition and not allowed unless certain circumstances exist such that collection of sales is not reasonably assured. This method is permitted when receivables are collected over an extended period of time and, because of the terms of transactions or other conditions, there is no reasonable basis for estimating the degree of collectability. The installment method allows revenue to be deferred and recognized each year in proportion to the receivables collected that year."

Page 10-40, Answer 49 (5563). The correct response should be "c," with the following explanation: "The installment method allows revenue to be deferred and recognized each year in proportion to the receivables collected during that year."

Page 10-40, Answer 51 (3442). The correct response should be "c," with the following explanation: "Since the installment notes extend beyond one year, they are recorded at the present value of the payments discounted at the market interest rate (assumed here to be 12%). At any time after the sale, the installment note's receivable balance will be the present value of the remaining monthly payments discounted at 12%."

Chapter 15: Page 15-24, Exhibit 15, section a: The Consolidated NI (Cr) should be (107,871), not (107,856). Footnote (1) should read: "S retires $100,000 BV bonds at a cost of $80,129, realizing a $19,871 gain." Footnote 2 should read: "S reissues debt for $80,129 at face value. The interest rate on this debt is the prevailing rate, or 12%; therefore, interest expense for Year 3 is $8,000 + $1,615 = $9,615 (i.e., 12% × $80,129)."

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Page 15-25, Exhibit 15, section b: Interest Income should be (9,809) and 9,809, respectively, not (9,811) and 9,811, respectively.

Page 15-63, Solution to Simulation 15-4 (9005). Journal Entry [3] should have a debit to Goodwill of 2,300,000, not 1,380,000.

Chapter 17: Page 17-56, Solution 34 (9731). The correct response is "d" as shown. The explanation should read: "Statement A is false because under both IFRS and GAAP the primary basis of accounting for inventory is cost. Statement B is false because under both IFRS and GAAP the cost of inventory excludes selling and storage cost. Statement C is false because under IFRS, previously recognized impairment losses can be reversed, up to the amount of the original impairment loss when the reasons for the impairment no longer exist; under GAAP, impairment losses cannot be reversed."

Chapter 18: Page 18-31, Question 61 (2663), Choice b should be: Transfers In (not Other Financing Sources)

Chapter 18: Page 18-45, Solution 61 (2663). The correct response is "b" as shown. The explanation should read: "In proprietary funds, residual equity transfers should be reported as *Transfers In* or *Transfers Out*."

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2011 RELEASED AICPA QUESTIONS AND ANSWERS

In May, 2011, the AICPA released fifty multiple-choice questions, two nonresearch simulations and one research 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 CSO in effect as of January 1, 2011.

The multiple-choice questions in Problems 1 and 2 were labeled *medium* or *hard,* respectively, by the AICPA examiners. 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 (medium)

1. The replacement cost of an inventory item is below the net realizable value and above the net realizable value less a normal profit margin. The inventory item's original cost is above the net realizable value. Under the lower of cost or market method, the inventory item should be valued at

   a. Original cost
   b. Replacement cost
   c. Net realizable value
   d. Net realizable value less normal profit margin (R/11, FAR, #1, 9851)

2. Encumbrances would **not** appear in which fund?

   a. Capital projects
   b. Special revenue
   c. General
   d. Enterprise (R/11, FAR, #2, 9852)

3. Roy City received a gift, the principal of which is to be invested in perpetuity with the income to be used to support the local library. In which fund should this gift be recorded?

   a. Permanent fund
   b. Investment trusts fund
   c. Private-purpose trusts fund
   d. Special revenue fund (R/11, FAR, #3, 9853)

4. Which of the following costs is unique to postretirement health-care benefits?

   a. Per capita claims
   b. Service
   c. Prior service
   d. Interest (R/11, FAR, #4, 9854)

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5. During the current year, the Finn Foundation, a nongovernmental not-for-profit organization, received a $1,000,000 permanent endowment from Chris. Chris stipulated that the income must be used to provide recreational activities for the elderly. The endowment reported income of $80,000 in the current year. What amount of permanently restricted contribution revenue should Finn report at the end of the current year?

   a. $1,080,000
   b. $1,000,000
   c. $ 80,000
   d. $0 (R/11, FAR, #5, 9855)

6. Larkin Co. has owned 25% of the common stock of Devon Co. for a number of years, and has the ability to exercise significant influence over Devon. The following information relates to Larkin's investment in Devon during the most recent year:

Carrying amount of Larkin's investment in Devon at the beginning of the year	$200,000
Net income of Devon for the year	600,000
Total dividends paid to Devon's stockholders during the year	400,000

   What is the carrying amount of Larkin's investment in Devon at year end?

   a. $100,000
   b. $200,000
   c. $250,000
   d. $350,000 (R/11, FAR, #6, 9856)

7. Which of the following transactions qualify as a discontinued operation?

   a. Disposal of part of a line of business
   b. Planned and approved sale of a segment
   c. Phasing out of a production line
   d. Changes related to technological improvements (R/11, FAR, #7, 9857)

8. Rowe Inc. owns 80% of Cowan Co.'s outstanding capital stock. On November 1, Rowe advanced $100,000 in cash to Cowan. What amount should be reported related to the advance in Rowe's consolidated balance sheet as of December 31?

   a. $0
   b. $ 20,000
   c. $ 80,000
   d. $100,000 (R/11, FAR, #8, 9858)

9. Chape Co. had the following information related to common and preferred shares during the year:

Common shares outstanding	1/1	700,000
Common shares repurchased	3/31	20,000
Conversion of preferred shares	6/30	40,000
Common shares repurchased	12/1	36,000

   Chape reported net income of $2,000,000 at December 31. What amount of shares should Chape use as the denominator in the computation of basic earnings per share?

   a. 684,000
   b. 700,000
   c. 702,000
   d. 740,000 (R/11, FAR, #9, 9859)

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10. Marr Co. had the following sales and accounts receivable balances, prior to any adjustments at year end:

Credit sales	$10,000,000
Accounts receivable	3,000,000
Allowance for uncollectible accounts (debit balance)	50,000

Marr uses 3% of accounts receivable to determine its allowance for uncollectible accounts at year end. By what amount should Marr adjust its allowance for uncollectible accounts at year end?

a. $0
b. $ 40,000
c. $ 90,000
d. $140,000 (R/11, FAR, #10, 9860)

11. On April 1, year 1, Hall Fitness Center leased its gym to Dunn Fitness Center under a four-year operating lease. Hall normally charges $6,000 per month to lease its gym, but as an incentive, Hall gave Dunn half off the first year's rent, and one quarter off the second year's rent. Dunn's rental payments were as follows:

Year 1 12 × $3,000 = $36,000
Year 2 12 × $4,500 = $54,000
Year 3 12 × $6,000 = $72,000
Year 4 12 × $6,000 = $72,000

Dunn's rent payments were due on the first day of the month, beginning on April 1, year 1. What amount should Dunn report as rent expense in its monthly income statement for April, year 3?

a. $3,000
b. $4,500
c. $4,875
d. $6,000 (R/11, FAR, #11, 9861)

12. Which of the following activities should be **excluded** when governmental fund financial statements are converted to government-wide financial statements?

a. Proprietary activities
b. Fiduciary activities
c. Government activities
d. Enterprise activities (R/11, FAR, #12, 9862)

13. Frame construction company's contract requires the construction of a bridge in three years. The expected total cost of the bridge is $2,000,000, and Frame will receive $2,500,000 for the project. The actual costs incurred to complete the project were $500,000, $900,000, and $600,000, respectively, during each of the three years. Progress payments received by Frame were $600,000, $1,200,000, and $700,000, respectively. Assuming that the percentage-of-completion method is used, what amount of gross profit would Frame report during the last year of the project?

a. $120,000
b. $125,000
c. $140,000
d. $150,000 (R/11, FAR, #13, 9863)

14. Pann, a nongovernmental not-for-profit organization, provides food and shelter to the homeless. Pann received a $15,000 gift with the stipulation that the funds be used to buy beds. In which net asset class should Pann report the contribution?

a. Endowment
b. Temporarily restricted
c. Permanently restricted
d. Unrestricted (R/11, FAR, #14, 9864)

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15. Grayson Co. incurred significant costs in defending its patent rights. Which of the following is the appropriate treatment of the related litigation costs?

    a. Litigation costs would be capitalized regardless of the outcome of the litigation.
    b. Litigation costs would be expensed regardless of the outcome of the litigation.
    c. Litigation costs would be capitalized if the patent right is successfully defended.
    d. Litigation costs would be capitalized only if the patent was purchased rather than internally developed. (R/11, FAR, #15, 9865)

16. A company decided to sell an unprofitable division of its business. The company can sell the entire operation for $800,000, and the buyer will assume all assets and liabilities of the operations. The tax rate is 30%. The assets and liabilities of the discontinued operation are as follows:

Buildings	$5,000,000
Accumulated depreciation	3,000,000
Mortgage on buildings	1,100,000
Inventory	500,000
Accounts payable	600,000
Accounts receivable	200,000

    What is the after-tax net loss on the disposal of the division?

    a. $ 140,000
    b. $ 200,000
    c. $1,540,000
    d. $2,200,000 (R/11, FAR, #16, 9866)

17. On January 1, year 1, Newport Corp. purchased a machine for $100,000. The machine was depreciated using the straight-line method over a 10-year period with no residual value. Because of a bookkeeping error, no depreciation was recognized in Newport's year 1 financial statements, resulting in a $10,000 overstatement of the book value of the machine on December 31, year 1. The oversight was discovered during the preparation of Newport's year 2 financial statements. What amount should Newport report for depreciation expense on the machine in the year 2 financial statements?

    a. $ 9,000
    b. $10,000
    c. $11,000
    d. $20,000 (R/11, FAR, #17, 9867)

18. Four years ago on January 2, Randall Co. purchased a long-lived asset. The purchase price of the asset was $250,000, with no salvage value. The estimated useful life of the asset was 10 years. Randall used the straight-line method to calculate depreciation expense. An impairment loss on the asset of $30,000 was recognized on December 31 of the current year. The estimated useful life of the asset at December 31 of the current year did not change. What amount should Randall report as depreciation expense in its income statement for the next year?

    a. $20,000
    b. $22,000
    c. $25,000
    d. $30,000 (R/11, FAR, #18, 9868)

19. Which of the following items would best enable Driver Co. to determine whether the fair value of its investment in Favre Corp. is properly stated in the balance sheet?

    a. Discounted cash flow of Favre's operations
    b. Quoted market prices available from a business broker for a similar asset
    c. Quoted market prices on a stock exchange for an identical asset
    d. Historical performance and return on Driver's investment in Favre (R/11, FAR, #19, 9869)

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20. A company has a defined benefit pension plan for its employees. On December 31, year 1, the accumulated benefit obligation is $45,900, the projected benefit obligation is $68,100, and the fair value of the plan assets is $62,000. What amount, if any, related to the defined benefit plan should be recognized in the balance sheet at December 31, year 1?

    a. An asset of $16,100
    b. A liability of $6,100
    c. Nothing, as the fair value of the plan assets exceeds the accumulated benefit obligation
    d. An unrealized loss of $6,100 (R/11, FAR, #20, 9870)

21. A company's activities for year 2 included the following:

Gross sales	$3,600,000
Cost of goods sold	1,200,000
Selling and administrative expense	500,000
Adjustment for a prior-year understatement of amortization expense	59,000
Sales returns	34,000
Gain on sale of available-for-sale securities	8,000
Gain on disposal of a discontinued business segment	4,000
Unrealized gain on available-for-sale securities	2,000

    The company has a 30% effective income tax rate. What is the company's net income for year 2?

    a. $1,267,700
    b. $1,273,300
    c. $1,314,600
    d. $1,316,000 (R/11, FAR, #21, 9871)

22. How should plan investments be reported in a defined benefit plan's financial statements?

    a. At actuarial present value
    b. At cost
    c. At net realizable value
    d. At fair value (R/11, FAR, #22, 9872)

23. What is the purpose of reporting comprehensive income?

    a. To summarize all changes in equity from nonowner sources
    b. To reconcile the difference between net income and cash flows provided from operating activities
    c. To provide a consolidation of the income of the firm's segments
    d. To provide information for each segment of the business (R/11, FAR, #23, 9873)

24. Which of the following is a component of other comprehensive income?

    a. Minimum accrual of vacation pay
    b. Cumulative currency-translation adjustments
    c. Changes in market value of inventory
    d. Unrealized gain or loss on trading securities (R/11, FAR, #24, 9874)

25. Nongovernmental not-for-profit organizations are required to provide which of the following external financial statements?

    a. Statement of financial position, statement of activities, statement of cash flows
    b. Statement of financial position, statement of comprehensive income, statement of cash flows
    c. Statement of comprehensive income, statement of cash flows, statement of gains and losses
    d. Statement of cash flows, statement of comprehensive income, statement of unrelated business income (R/11, FAR, #25, 9875)

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Problem 2 MULTIPLE-CHOICE QUESTIONS (hard)

26. Fenn Museum, a nongovernmental not-for-profit organization, had the following balances in its statement of functional expenses:

Education	$300,000
Fundraising	250,000
Management and general	200,000
Research	50,000

What amount should Fenn report as expenses for support services?

a. $350,000
b. $450,000
c. $500,000
d. $800,000 (R/11, FAR, #26, 9876)

27. In January, Stitch, Inc. adopted the dollar-value LIFO method of inventory valuation. At adoption, inventory was valued at $50,000. During the year, inventory increased $30,000 using base-year prices, and prices increased 10%. The designated market value of Stitch's inventory exceeded its cost at year end. What amount of inventory should Stitch report in its year-end balance sheet?

a. $80,000
b. $83,000
c. $85,000
d. $88,000 (R/11, FAR, #27, 9877)

28. Jonn City entered into a capital lease for equipment during the year. How should the asset obtained through the lease be reported in Jonn City's government-wide statement of net assets?

a. General capital asset
b. Other financing use
c. Expenditure
d. Not reported (R/11, FAR, #28, 9878)

29. Jane Co. owns 90% of the common stock of Dun Corp. and 100% of the common stock of Beech Corp. On December 30, Dun and Beech each declared a cash dividend of $100,000 for the current year. What is the total amount of dividends that should be reported in the December 31 consolidated financial statements of Jane and its subsidiaries, Dun and Beech?

a. $ 10,000
b. $100,000
c. $190,000
d. $200,000 (R/11, FAR, #29, 9879)

30. Lem Co., which accounts for treasury stock under the par value method, acquired 100 shares of its $6 par value common stock for $10 per share. The shares had originally been issued by Lem for $7 per share. By what amount would Lem's additional paid-in capital from common stock decrease as a result of the acquisition?

a. $0
b. $100
c. $300
d. $400 (R/11, FAR, #30, 9880)

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31. Abbott Co. is preparing its statement of cash flows for the year. Abbott's cash disbursements during the year included the following:

Payment of interest on bonds payable	$500,000
Payment of dividends to stockholders	300,000
Payment to acquire 1,000 shares of Marks Co. common stock	100,000

What should Abbott report as total cash outflows for financing activities in its statement of cash flows?

a. $0
b. $300,000
c. $800,000
d. $900,000 (R/11, FAR, #31, 9881)

32. In preparing Chase City's reconciliation of the statement of revenues, expenditures, and changes in fund balances to the government-wide statement of activities, which of the following items should be subtracted from changes in fund balances?

a. Capital assets purchases
b. Payment of long-term debt principal
c. Internal service fund increase in net assets
d. Book value of capital assets sold during the year (R/11, FAR, #32, 9882)

33. Neron Co. has two derivatives related to two different financial instruments, instrument A and instrument B, both of which are debt instruments. The derivative related to instrument A is a fair value hedge, and the derivative related to instrument B is a cash flow hedge. Neron experienced gains in the value of instruments A and B due to a change in interest rates. Which of the gains should be reported by Neron in its income statement?

	Gain in value of debt instrument A	*Gain in value of debt instrument B*
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

(R/11, FAR, #33, 9883)

34. Fern Co. has net income, before taxes, of $200,000, including $20,000 interest revenue from municipal bonds and $10,000 paid for officers' life insurance premiums where the company is the beneficiary. The tax rate for the current year is 30%. What is Fern's effective tax rate?

a. 27.0%
b. 28.5%
c. 30.0%
d. 31.5% (R/11, FAR, #34, 9884)

35. Assuming constant inventory quantities, which of the following inventory-costing methods will produce a lower inventory turnover ratio in an inflationary economy?

a. FIFO (first in, first out)
b. LIFO (last in, first out)
c. Moving average
d. Weighted average (R/11, FAR, #35, 9885)

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36. Hilltop Co.'s monthly bank statement shows a balance of $54,200. Reconciliation of the statement with company books reveals the following information:

Bank service charge	$ 10
Insufficient funds check	650
Checks outstanding	1,500
Deposits in transit	350
Check deposited by Hilltop and cleared by the bank for $125, but improperly recorded by Hilltop as $152	

What is the net cash balance after the reconciliation?

a. $52,363
b. $53,023
c. $53,050
d. $53,077 (R/11, FAR, #36, 9886)

37. A nongovernmental not-for-profit organization received a $2 million gift from a donor who specified it be used to create an endowment fund that would be invested in perpetuity. The income from the fund is to be used to support a specific program in the second year and beyond. An investment purchased with the gift earned $40,000 during the first year. At the end of the first year, the fair value of the investment was $2,010,000. What is the net effect on temporarily restricted net assets at year end?

a. $0
b. $10,000 increase
c. $40,000 increase
d. $50,000 increase (R/11, FAR, #37, 9887)

38. When purchasing a bond, the present value of the bond's expected net future cash inflows discounted at the market rate of interest provides what information about the bond?

a. Price
b. Par
c. Yield
d. Interest (R/11, FAR, #38, 9888)

39. A company calculated the following data for the period:

Cash received from customers	$25,000
Cash received from sale of equipment	1,000
Interest paid to bank on note	3,000
Cash paid to employees	8,000

What amount should the company report as net cash provided by operating activities in its statement of cash flows?

a. $14,000
b. $15,000
c. $18,000
d. $26,000 (R/11, FAR, #39, 9889)

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40. A company records items on the cash basis throughout the year and converts to an accrual basis for year-end reporting. Its cash-basis net income for the year is $70,000. The company has gathered the following comparative balance sheet information:

	Beginning of year	*End of year*
Accounts payable	$3,000	$1,000
Unearned revenue	300	500
Wages payable	300	400
Prepaid rent	1,200	1,500
Accounts receivable	1,400	600

What amount should the company report as its accrual-based net income for the current year?

a. $68,800
b. $70,200
c. $71,200
d. $73,200 (R/11, FAR, #40, 9890)

41. Restorations of carrying value for long-lived assets are permitted if an asset's fair value increases subsequent to recording an impairment loss for which of the following?

	Held for use	*Held for disposal*
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

(R/11, FAR, #41, 9891)

42. What are the components of the lease receivable for a lessor involved in a direct-financing lease?

a. The minimum lease payments plus any executory costs
b. The minimum lease payments plus residual value
c. The minimum lease payments **less** residual value
d. The minimum lease payments **less** initial direct costs (R/11, FAR, #42, 9892)

43. When the effective interest method of amortization is used for bonds issued at a premium, the amount of interest payable for an interest period is calculated by multiplying the

a. Face value of the bonds at the beginning of the period by the contractual interest rate
b. Face value of the bonds at the beginning of the period by the effective interest rates
c. Carrying value of the bonds at the beginning of the period by the contractual interest rate
d. Carrying value of the bonds at the beginning of the period by the effective interest rates
(R/11, FAR, #43, 9893)

44. In year 1, a company reported in other comprehensive income an unrealized holding loss on an investment in available-for-sale securities. During year 2, these securities were sold at a loss equal to the unrealized loss previously recognized. The reclassification adjustment should include which of the following?

a. The unrealized loss should be credited to the investment account.
b. The unrealized loss should be credited to the other comprehensive income account.
c. The unrealized loss should be debited to the other comprehensive income account.
d. The unrealized loss should be credited to beginning retained earnings. (R/11, FAR, #44, 9894)

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45. Toigo Co. purchased merchandise from a vendor in England on November 20 for 500,000 British pounds. Payment was due in British pounds on January 20. The spot rates to purchase one pound were as follows:

November 20	$1.25
December 31	1.20
January 20	1.17

How should the foreign currency transaction gain be reported on Toigo's financial statements at December 31?

a. A gain of $40,000 as a separate component of stockholders' equity
b. A gain of $40,000 in the income statement
c. A gain of $25,000 as a separate component of stockholders' equity
d. A gain of $25,000 in the income statement (R/11, FAR, #45, 9895)

46. A company enters into a three-year operating lease agreement effective January 1, year 1. The amounts due on the first day of each year are $25,000 in year 1, $30,000 in year 2, and $35,000 in year 3. What amount, if any, is the related liability on the first day of year 2?

a. $0
b. $ 5,000
c. $60,000
d. $65,000 (R/11, FAR, #46, 9896)

47. Damon Co. purchased 100% of the outstanding common stock of Smith Co. in an acquisition by issuing 20,000 shares of its $1 par common stock that had a fair value of $10 per share and providing contingent consideration that had a fair value of $10,000 on the acquisition date. Damon also incurred $15,000 in direct acquisition costs. On the acquisition date, Smith had assets with a book value of $200,000, a fair value of $350,000, and related liabilities with a book and fair value of $70,000. What amount of gain should Damon report related to this transaction?

a. $ 55,000
b. $ 70,000
c. $ 80,000
d. $250,000 (R/11, FAR, #47, 9897)

48. If a city government is the primary reporting entity, which of the following is an acceptable method to present component units in its combined financial statements?

a. Consolidation
b. Cost method
c. Discrete presentation
d. Government-wide presentation (R/11, FAR, #48, 9898)

49. Which of the following statements correctly describes the proper accounting for nonmonetary exchanges that are deemed to have commercial substance?

a. It defers any gains and losses
b. It defers losses to the extent of any gains
c. It recognizes gains and losses immediately
d. It defers gains and recognizes losses immediately (R/11, FAR, #49, 9899)

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50. Campbell Corp. exchanged delivery trucks with Highway, Inc. Campbell's truck originally cost $23,000, its accumulated depreciation was $20,000, and its fair value was $5,000. Highway's truck originally cost $23,500, its accumulated depreciation was $19,900, and its fair value was $5,700. Campbell also paid Highway $700 in cash as part of the transaction. The transaction lacks commercial substance. What amount is the new book value for the truck Campbell received?

    a. $5,700
    b. $5,000
    c. $3,700
    d. $3,000 (R/11, FAR, #50, 9900)

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Problem 3 SIMULATION 1

Peterson Co. owns 100% of the outstanding common stock of Silver Corp.

For each of the situations below, prepare Peterson's eliminating journal entries required for consolidation purposes for the year ended December 31, year 3.

To prepare each entry:

- Select from the list provided the appropriate account name. If no entry is needed, select "No entry required." An account may be used once or not at all for each entry.
- Enter the corresponding debit or credit amount in the appropriate column.
- All rows may not be required to complete each entry.

Account Title Choices	
Accounts payable	Accounts receivable
Accumulated depreciation	Cash
Cost of goods sold	Depreciation expense
Equipment	Gain on sale
Inventory	Loss on sale
Sales	Sales return and allowances
No entry required	

Situation 1

On January 1, year 3, Peterson sold equipment to Silver for $120,000, which was originally purchased on January 1, year 1, for $100,000. Peterson was depreciating the equipment over 10 years using straight-line depreciation. There was no salvage value. Silver decides to depreciate the equipment over eight years, also using straight-line depreciation with no salvage value. Assume all other appropriate year-end and income tax journal entries have been made.

Eliminating journal entry at December 31, year 3:

	A	B	C
1	**Account name**	**Debit**	**Credit**
2			
3			
4			
5			
6			

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Situation 2

Throughout year 3, Peterson sold merchandise costing $30,000 to Silver at a price of $50,000. Silver sold 60% of the inventory by December 31, year 3. Silver remitted payment to Peterson before year-end.

Eliminating journal entry at December 31, year 3:

	A	B	C
1	**Account name**	**Debit**	**Credit**
2			
3			
4			
5			
6			

Problem 3 SIMULATION 2

Cougar Co. built a warehouse during years 2 and 3. The following payments were made during construction for building materials, labor and overhead:

	A	B		C
1	**January 1, year 2**	**April 1, year 2**	**October 1, year 2**	**January 15, year 3**
2	$130,000	$240,000	$200,000	$350,000

In addition, Cougar:

- Borrowed $300,000 at 12% on January 1, year 2, under a construction note.
- Had bonds outstanding of $100,000 at 10%, on January 1, year 2; interest is payable annually on December 31.
- Had notes payable outstanding of $300,000 at 7% on January 1, year 2; interest is payable annually on December 31.
- Completed construction on the building, which was ready for immediate use on March 1, year 3.

For each of the items below, enter the applicable dollar value in the shaded cell. Round all amounts to the nearest whole dollar. If the amount is zero, enter a zero (0).

	A	B
1	**Items**	**Amount**
2	The weighted average accumulated expenditures for year 2	
3	The interest incurred for all borrowings for year 2	
4	The avoidable interest for year 2	
5	The interest capitalized for year 2	
6	The interest expense for year 2	

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Problem 3 SIMULATION 3: RESEARCH

The controller of SFB, Inc. asked whether or not to include cash flow per share data in the company's financial statements. Which section of the authoritative guidance best addresses the presentation of cash flow per share data in the financial statements?

Enter your response in the answer fields below. Unless specifically requested, your response should not cite implementation guidance. Guidance on correctly structuring your response appears above and below the answer fields.

FASB ASC: [ ] - [ ] - [ ] - [ ]

Solution 1 MULTIPLE CHOICE ANSWERS (medium)

1. (b) Valuation of inventory items is required at the lower of cost or replacement cost (commonly referred to as market). Market cannot exceed the net realizable value (ceiling) of the good (i.e., selling price less expected costs to sell), and market should not be less than this net realizable value reduced by an allowance for a normal profit margin (floor). In this problem, the replacement cost is between the ceiling and floor amounts, so it is used as the market value. Since the original cost is greater than replacement (i.e., market) cost, the item will be carried at the lower market/replacement cost. (Chapter 3-2-4, CSO: 2.3.0)

2. (d) The encumbrance system is used in governmental funds (general, special revenue, and capital projects funds) to prevent over-expenditure and to demonstrate compliance with legal requirements. The enterprise fund is a proprietary fund and does not use the encumbrance system. (Chapter 18-1-2, CSO: 4.4.9)

3. (a) A permanent fund is used to account for nonexpendable resources that may be used for the government's programs to generate and disperse money, to benefit the reporting entity or its citizens, such as the library in this question. The name of the fund comes from the purpose of the fund: a sum of equity used to permanently generate payments to maintain some financial obligation. A fund can only be classified as a permanent fund if the money is used to report the status of a restricted financial resource. The resource is restricted in the sense that only earnings from the resource are used and not the principal. (Chapter 18-2-6, CSO: 4.1.2)

4. (a) The editors suggest that you answer this question through process of elimination. If you are well prepared, you should recognize the terms used in choices b-d are commonly used in both pension and postretirement accounting, but per capita claims may not be as familiar to you. Per capita claims are the current cost of providing postretirement health care benefits for one year at each age from the youngest age to the oldest age at which plan participants are expected to receive benefits under the plan. Per capita costs are unique to postretirement benefits only. (Chapter 8-7-2, CSO: 2.13.4)

5. (b) The $80,000 income would be held in a restricted current fund which is used for available financial resources and related liabilities that are expendable only for operating purposes specified by the donor, in this case, providing recreational activities for the elderly. An endowment fund would be used to account for the $1,000,000 principal accepted with the donor stipulation. Contributions received are measured at their fair values and recognized as revenues (restricted or unrestricted) in the period received. (Chapter 20-5-2, CSO: 5.2.2)

6. (c) Because Larkin exercises significant influence over Devon, Larkin would use the equity method to account for its common stock investment in Devon. Larkin would debit the Investment account for 25% of $600,000 ($150,000) since net income would increase the owner's equity in Devon, and would credit the Investment account for 25% of $400,000 ($100,000) since the dividend distribution reduces the owner's equity in Devon. (Chapter 15-1-3, CSO: 2.5.5)

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7. (b) Discontinued operations refers to the operations of a component of an entity that has been disposed of or is still operating, but is the subject of a formal plan for disposal. A component of an entity is a segment, reporting unit, or asset group (not a part of a line of business) whose operations and cash flows are clearly distinguished from the rest of the entity, operationally as well as for financial reporting purposes. (Chapter 11-2-3, CSO: 3.7.0)

8. (a) Consolidated financial statements should not include intercompany payables, receivables, or advances pertaining to consolidated subsidiaries. Intercompany advances must be eliminated from consolidated statements, in a manner similar to that used for receivables and payables. In addition, interest income and expense and interest accruals must be eliminated. (Chapter 15-4-1, CSO: 1.3.7)

9. (c) Basic earnings per share (EPS) is computed by dividing income available to common stockholders by the weighted-average number of shares outstanding during the period. Shares issued during the period and shares reacquired during the period are weighted for the portion of the period they were outstanding. Stock dividends, stock splits, and reverse stock splits change the total number of shares outstanding but not the proportionate shares outstanding. For this reason, stock dividends, stock splits, and reverse stock splits are reflected retroactively for all periods presented. The weighted-average number of shares used to calculate basic EPS is 702,000. It's 100% of the 644,000 shares that have been outstanding all year (700,000 – 20,000 – 36,000), plus 3/12 of the 20,000 shares repurchased on March 31 (5,000), plus 11/12 of the shares repurchased on December 1 (33,000), and 50% of the 40,000 preferred shares converted at June 30 (20,000). (Chapter 16-3-2, CSO: 3.6.0)

10. (d) The amount of the adjustment to the uncollectible account is the difference between the existing balance and the desired ending balance. The uncollectible account currently has a debit balance of $50,000. To get the allowance account to the desired $90,000 credit balance (3% × 3,000,000) there would need to be a credit to allowance for uncollectible accounts and debit to uncollectible accounts expense for $140,000. (Chapter 2-2-2, CSO: 2.2.0)

11. (c) Accrual accounting recognizes expense in the period incurred, rather than only when the related cash is paid. The lease incentive is allocated ratably over the lease term as a reduction to rent expense. (Chapter 8-3-2, CSO: 3.14.0)

Monthly rental payment	$ 6,000
Amortization of lease incentive ($36,000 + 18,000) / 48	(1,125)
Rental expense	$ 4,875

12. (b) Fiduciary activities are not included in the government-wide statements because the assets and liabilities cannot be used to support the government's own programs. Proprietary, governmental and enterprise activities are all included in government-wide statements. (Chapter 19-2-3, CSO: 4.2.9)

13. (d) In the final year of a contract accounted for by the percentage-of-completion method, the final income recognition would take place. The calculation would be the total revenue earned over the entire contract less the actual total costs incurred less the income previously recognized. (Chapter 10-5-2, CSO: 2.11.0)

Contract price		$ 2,500,000
Costs incurred to date		2,000,000
Estimated total gross profit		$ 500,000
Costs incurred to date	$ 2,000,000	
Estimated total costs	/ 2,000,000	
Times estimated % of completion		× 100%
Gross profit recognizable to date		$ 500,000
Less: Gross profit recognized in year 1 & 2		350,000
Gross profit recognized in year 3		$ 150,000

14. (b) Entities are required to classify net assets based upon the existence or absence of donor-imposed restrictions. Thus, net assets are classified into at least three categories: permanently restricted,

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temporarily restricted, and unrestricted. A temporary restriction is a donor-imposed restriction, such as the stipulation that the funds be used to buy beds, that will lapse upon occurrence of conditions specified by the donor. (Chapter 20-1-3, CSO: 5.2.2)

15. (c) Legal fees in a successful defense are capitalized because they offer probable future benefits. They are amortized over the remaining useful life of the patent. (Chapter 5-1-3, CSO: 2.6.0)

16. (a) The results of discontinued operations are reported separately from continuing operations. Discontinued operations refers to the operations of a component of an entity that has been disposed of or is still operating, but is subject of a formal plan for disposal. A component of an entity is defined as a segment, reporting unit, or asset group whose operations and cash flows are clearly distinguished from the rest of the entity, operationally as well as for financial reporting purposes. The after-tax net loss on the disposal of the division is: (1 – .30) × 200,000 = $140,000 (Chapter 11-2-3, CSO: 3.7.0)

The entry to record the sale is as follows:

Account	Debit	Credit
Cash	800,000	
Accounts payable	600,000	
Mortgage payable	1,100,000	
Loss on disposal	200,000	
Building, net		2,000,000
Inventory		500,000
Accounts Receivable		200,000

17. (b) Errors in financial statements result from mathematical mistakes, mistakes in the application of accounting principles, or the oversight or misuse of facts that existed at the time the financial statements were prepared. For an item to be classified as a prior period adjustment, it must be an item of profit or loss related to the correction of an error in the financial statements of a prior period. Any error in the financial statements of a prior period discovered subsequent to their issuance shall be reported as an adjustment to the beginning balance of retained earnings, net of their income tax effect, in the statement of retained earnings. Therefore, Newton would report normal depreciation expense of $10,000 in the year 2 financial statements. (Chapter 11-1-6, CSO: 3.1.0)

18. (a) Impairment is the condition that exists when the carrying amount of a long-lived asset exceeds its fair value. The amount of an impairment loss is the difference between an asset's book and fair value. The new book value is depreciated over the remaining useful life. Subsequent reversal of a previously recognized impairment loss is prohibited. This is classified as a change in accounting estimate and is reported in the period of change. There are no pro forma reports for prior periods, and amounts reported in financial statements of prior periods are not restated. Randall should report $20,000 ($250,000 cost – $100,000 accumulated depreciation – $30,000 impairment loss = $120,000 remaining basis depreciated over 6 years of remaining life) as depreciation expense in its income statement for the next year. (Chapter 4-4-1, CSO: 3.12.0)

19. (c) Fair value is the amount at which an asset (liability) could be bought (incurred) or sold (settled) in a current transaction between willing parties other than in a forced or liquidation sale. Generally, quoted market prices, if available, are the best evidence of fair value. If quoted market prices are unavailable, the estimate of fair value should be based on the best information available in the circumstances. (Chapter 2-6-1, CSO: 3.9.0)

20. (b) The amount of the total liability to be recognized equals the unfunded projected benefit obligation. (Chapter 8-8-3, CSO: 2.13.4)

Item	Amount
Projected benefit obligation	$ 68,100
Less: Plan assets at fair value	(62,000)
Amount of total liability to be recognized	$ 6,100

21. (c) The $2,000 unrealized holding gain for AFS is included in other comprehensive income, not the income statement. The prior period adjustment is reported as an adjustment to the beginning balance

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of retained earnings, net of their income tax effect, not in the income statement. All other items listed would in included in the computation of net income, as follows (Chapter 11-2-5, CSO: 1.3.2):

Sales		$ 3,600,000
Less Sales Returns		(34,000)
Cost of sale	$1,200,000	
Selling and administrative expenses	500,000	(1,700,000)
Gain on sale of available-for-sale securities		8,000
Gain on disposal of a discontinued business segment		4,000
Income before income taxes		$ 1,878,000
Income taxes		(563,400)
Income from continuing operations after taxes		$ 1,314,600

22. (d) For purposes of reporting overfunded and underfunded plans, along with required disclosures, plan investments shall be measured at their fair value as of the measurement date. (Chapter 8-8-4, CSO: 1.5.5)

23. (a) Comprehensive income is the change in equity (net assets) of a business entity as a result of transactions and other events from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. Comprehensive income is divided into net income and other comprehensive income. (Chapter 11-3-1, CSO: 1.3.3)

24. (b) Items (revenues, expenses, gains, and losses) that previously were included in the equity section as a separate component of owners' equity are required to be reported in other comprehensive income. Examples include: foreign currency items, pension adjustments, unrealized gains and losses on certain investments in debt and equity securities, and gains and losses on cash flow hedging derivative instruments. (Chapter 11-3-2, CSO: 1.3.3)

25. (a) Nonprofit organizations are required to present at least three statements; a Statement of Financial Position, a Statement of Activities, and a Statement of Cash Flows. These statements are similar to those used by a commercial entity. Some entities may choose to also disclose the fund statements. Several formats are acceptable for nonprofit entities, however, aggregated statements must be used. (Chapter 20-2-1, CSO: 5.1.1)

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Solution 2 MULTIPLE-CHOICE ANSWERS (hard)

26. (b) The statement of functional expenses provides information about expenses reported by their functional classifications, such as major classes of program services and support services, as well as information about expenses by their natural classification, such as salaries, rent, electricity, interest expense, depreciation awards and grants to others, and professional fees, in a matrix format. Program services are the activities that result in goods and services being distributed to beneficiaries, customers, or members that fulfill the purposes or mission for which the organization exists. Those services are the major purpose for and the major output of the organization and often relate to several major programs. Examples include research, education, and community services, among others. Support services are all activities of a not-for-profit organization other than program services. Generally, they include management and general, fund-raising, and membership-development activities. The salaries of fundraisers, even though the funds raised may be used in research, are classified as support services. (Chapter 20-2-6, CSO: 5.2.4)

27. (b) Inventory is reported at the lower of cost or market. As indicated in the problem, market exceeded cost, so inventory should be stated at cost, using dollar value LIFO. The inventory layer added in the current year is computed in terms of base year cost. It then must be converted to current year cost because the layer was added during the current year. The index (1.1) is computed by dividing the ending inventory at current year cost ($88,000) by the ending inventory at base year cost ($80,000). The cost of ending inventory ($83,000) is the $50,000 cost of the beginning amount and the converted Year 1 layer. ($30.000 × 1.1 = $33,000) (Chapter 3-2-3, CSO: 2.3.0)

28. (a) General capital assets are not specifically related to activities reported in proprietary or fiduciary funds. They are associated with, and generally arise from, governmental activities. They should **not** be reported as assets in governmental funds, but should be reported in the governmental activities column in the government-wide statement of net assets. (Chapter 19-2-2, CSO: 4.4.3)

29. (a) Jane will report just the $10,000 ($100,000 × 10%) in dividends that Dun paid to minority owners during the year. The $90,000 paid by Dun to Jane and the $100,000 paid by Beech to Jane are eliminated on a consolidated statement of retained earnings. (Chapter 15-3-3, CSO: 1.3.7)

30. (b) Under the par value method, the recording of the acquisition of treasury stock effectively removes the treasury stock from the accounts. The excess in acquisition price over the original issuance price is debited to *Additional Paid-In-Capital From Treasury Stock*, but only to the extent of any existing balance from prior treasury stock transactions. The difference, if any, is debited to *Retained Earnings*. (Chapter 9-6-3, CSO: 2.10.0)

Treasury stock (100 sh @ $6)	600	
APIC-common stock (100 sh @ $7 - $6)	100	
Retained earnings (plug)	300	
Cash		1,000

31. (b) Cash inflows from financing activities include proceeds from issuing equity securities (e.g., treasury stock). Cash outflows for financing activities include payments of dividends and repayments of amounts borrowed. Payment of acquire common stock is an investing activity. Payment of interest on bonds payable is an operating activity. Only the $300,000 payment of dividends is a financing activity. (Chapter 14-2-3, CSO: 1.3.5).

32 (d) The link between government-wide and fund statements requires a reconciliation to convert the governmental funds to the economic resources measurement and accrual basis of accounting. Capital assets used in governmental activities, internal service funds used by management are not included in funds but are included in the GWS, so they are added to changes in fund balance. Long-term liabilities are also not included in changes in fund balance; any reduction to debt would be added back (increase in long-term debt would be subtracted) to reconcile to GWS. Only book value of capital assets is included in fund balance changes and should be subtracted in the reconciliation to GWS net assets. (Chapter 19-2-4, CSO: 4.2.9)

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33. (b) The gain or loss of a fair value hedge (instrument A) is recognized in earnings in the period of change, together with the offsetting loss or gain in the hedged item. The effective portion of the gain or loss of a cash flow hedge (instrument B) is initially reported as a component of other comprehensive income (OCI) on the balance sheet, and subsequently reclassified into earnings when the forecasted transaction affects earnings. (Chapter 2-6-2, CSO: 3.10.0)

34. (b) The effective tax rate (28.5%) is the amount due to the government ($57,000) divided by net income before taxes ($200,000). The amount due to the government $57,000 ($190,000 × 30%) is net income before taxes adjusted for tax-exempt revenues and nondeductible expenses $190,000 ($200,000 – 20,000 + 10,000) times the current year tax rate (30%). (Chapter 13-2-2, CSO: 2.14.0)

35. (a) The inventory turnover ratio indicates the number of times inventory was acquired and sold (or used in production) during the period. It is computed by dividing Cost of Goods Sold by Average Inventory. Average inventory is generally determined by adding the beginning and ending inventories and dividing by two. The lower the numerator (i.e., Cost of Goods Sold), the lower the ratio. In times of rising prices, FIFO will give you the oldest/lowest Cost of Goods Sold, so FIFO will also compute the lowest inventory turnover ratio. (Chapter 16-2-3, CSO: 2.3.0)

36. (c) A common format of the bank reconciliation statement is to reconcile both book and bank balances to a common amount known as the "true balance" or net cash balance. This approach has the advantage of providing the cash figure to be reported in the balance sheet. Furthermore, journal entries necessary to adjust the books can be taken directly from the "book balance" section of the reconciliation. Net cash is the bank balance adjusted for outstanding checks and deposits in transit ($54,000 + 350 – 1,500 = $53,050). Net cash is also the book balance adjusted for unrecorded or misrecorded items, such as service charges, insufficient funds and errors. A normal book to bank reconciliation will compute the unadjusted book balance of $53,737. Net cash from the book side is $53,050 ($53,737 – $10 service charge – $650 insufficient funds – $27 net effect from the error). (Chapter 2-1-5, CSO: 2.1.0)

37. (d) The receipt of the pure endowment grant is recorded as permanently restricted revenues upon receipt. The principal of a pure endowment may not be expended. Gains and losses on the investments are included in the statement of activities as increases and decreases, respectively, in temporarily restricted net assets as the income is available for use in its intended purpose in year 2. Therefore, the net effect on temporarily restricted net assets is an increase of $50,000 ($40,000 + $10,000). (Chapter 20-1-3, CSO: 5.2.5)

38. (a) To estimate the proceeds to be received from the purchase and associated issuance of bonds payable (ignoring bond issue costs), the present values of the bond principal and interest payments must be determined. The prevailing market (yield) rate is used to discount the cash flows to arrive at their present value, which is the selling price of the bond. (Chapter 6-2-4, CSO: 2.9.2)

39. (a) Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. Operating activities generally involve producing and delivering goods and providing services. Cash inflows include: cash receipts from sales of goods or services, including receipts from collection or sale of accounts receivable and notes receivable from customers arising from those sales. Cash outflows include: cash payments to other suppliers and employees for other goods or services and cash payments to lenders and other creditors for interest. Cash received from the sale of equipment is an investing activity. Net cash provided by operating activities would be $14,000 ($25,000 – 3,000 – 8,000). (Chapter 14-2-1, CSO: 1.3.5)

40. (c) In cash-basis accounting, the effects of transactions and other events on the assets and liabilities of a business enterprise are recognized and reported only when cash is received or paid; while in accrual accounting, these effects are recognized and reported in the time periods to which they relate. Cash-basis accounting does not attempt to match revenues and the expenses associated with those revenues. If liabilities have a net decrease, then cash is assumed to have been used, and cash net income would be lower than accrual. The same logic holds true for the asset side. If current assets increase, cash was consumed, so cash net income is less than accrual. A short-cut method is to journalize the net change of each account, and plug the difference to cash, as follows:

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Accounts payable	2,000	
Prepaid Rent	300	
Unearned revenue		200
Wages payable		100
Accounts receivable		800
Cash		**1,200**

Overall, net cash decreased by $1,200, so Cash Net Income is $1,200 less than Accrual Net Income; Accrual Net Income was $71,200. (Chapter 10-1-2, CSO: 1.5.1)

41. (c) Impaired assets are divided into three categories: held for use, held for disposal by sale, and held for disposal other than by sale. For assets held for use, any subsequent reversal of a previously recognized impairment loss is prohibited. For assets held for disposal by sale, the asset is measured at the lower of its book or fair value less cost to sell and its depreciation (or amortization) discontinues. Increases in the fair value, up to but not exceeding book value, would be recognized. (Chapter 4-4-1, CSO: 3.12.0)

42. (b) A direct financing lease is a lease that meets the same criteria as a sales-type lease except it does not give rise to a manufacturer's or dealer's profit (i.e., the cost or carrying amount of the asset is equal to its fair value). The only income that arises from this type of lease is interest income. The sum of minimum lease payment (net of lessor-paid executory costs) and unguaranteed residual value should be recorded as gross investment in the lease. (Chapter 8-5-2, CSO: 3.14.0)

43. (a) The effective interest method of amortization calls for recognizing interest expense at the effective interest rate at which the bonds were sold. Thus, this interest method overcomes the criticism of the straight-line method because it offers a more accurate measurement of interest expense. To amortize a premium using the effective interest method, multiply the carrying amount of the bond issue by the effective yield. This equals interest expense for the period. The difference between the cash interest payment and the interest expense equals the amount of premium amortization for the period. The cash payment is always computed by multiplying the face amount of the bond by the face or stated interest rate. (Chapter 6-3-2, CSO: 2-9-2)

44. (b) Available-for-Sale (AFS) securities are debt and equity securities not classified as either held-to-maturity or trading securities. Unrealized holding gains and losses are excluded from current earnings and are instead reported in other comprehensive income (OCI) until realized. In determining the realized gain or loss on the sale of available-for sale securities, no regard is given to previously recognized unrealized losses or recoveries or to the amount accumulated in the Market Adjustment account. The realized loss reported from the sale of the marketable securities is determined as the difference between the proceeds received (i.e., the gross selling price of the shares less any brokerage commissions and taxes incurred in the sale) and the cost of the securities. Reclassification adjustments are made to avoid double counting in comprehensive income gains or losses realized and included in net income of the current period that were previously included in other comprehensive income as unrealized gains or losses. (Chapter 2-5-8, CSO: 2.5.2)

45. (d) At the date the transaction is recognized, each asset, liability, revenue, expense, gain, or loss arising from the transaction should be measured and recorded in the functional currency of the recording entity by use of the exchange rate in effect at that date. Toiga would record a liability of $625,000 (500,000 × $1.25). At each balance sheet date, recorded balances that are denominated in a currency other than the functional currency of the recording entity should be adjusted to reflect the current exchange rate. These adjustments should be currently recognized as transaction gains or losses and reported as a component of income from continuing operations. Toigo would recognize a gain of $25,000 on the December 31 financial statements based on 500,000 pounds × $1.20 = $600,000 as of December 31. (Chapter 12-5-4, CSO: 3.11.0)

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46. (b) The lease liability on the first day of year 2 would be $5,000. Under operating leases, lessees recognize rent as expense over the lease term as it becomes payable according to the provisions of the lease. If the rentals vary from a straight-line basis (e.g., the lessee pays a “lease bonus” at the inception of the lease or the lease agreement specifies scheduled rent increases over the lease term), the expense should continue to be recognized on a straight-line basis unless another systematic and rational basis is more representative of the time pattern in which the benefit from the leased property is diminished. Annual lease expense of $30,000 (3-year average) would be recognized on this lease. (Chapter 8-3-2, CSO: 3.14.0)

The year 1 journal entry would be:

Account	Debit	Credit
Rent expense	30,000	
Cash		25,000
Rent payable		5,000

47. (b) Under the acquisition method, current assets, and noncurrent marketable securities of the acquired company are always recorded at their fair values and all liabilities assumed are recorded at their fair value (present value). If the fair value of the consideration transferred (including contingent consideration) is less than the fair value of the identifiable net assets, any excess is considered a bargain purchase. The acquirer recognizes a gain in earnings on the acquisition date. (Chapter 15-2-4, CSO: 3.3.0)

48. (c) Government-wide statements (GWS) aggregate information for all governmental and business-type activities. GASB 34 requires an economic resources measurement focus and accrual basis of accounting for all amounts in the GWS. There are four required columns in the GWS, one each for: governmental activities, business-type activities, the primary government (sum of the previous two), and component units. Most component units should be included in the financial reporting entity by discrete presentation (reported in columns separate from primary government). (Chapter 19-2-1, CSO: 4.3.0)

49. (c) In an exchange with commercial substance, the transaction is accounted for at the fair value of the asset received or the asset given up, whichever is more clearly evident, and a gain or loss is recognized on the exchange. (Chapter 4-2-1, CSO: 3.16.0)

50. (c) In general, accounting for nonmonetary transactions should be based on the fair values (FV) of the assets involved. Nonmonetary exchanges should be based on recorded amounts, rather than FV, of the exchanged assets if any of the following apply: 1) neither the FV of the assets received nor FV of the assets surrendered is reasonably determinable, or 2) the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers, or 3) the exchange lacks commercial substance. Since the above transaction lacks commercial substance, the new book value for the truck Campbell received ($3,700) is determined as follows (Chapter 4-2-1, CSO: 3.16.0):

Account	Debit	Credit
New Truck (plug)	3,700	
Accm Depr Old Truck	20,000	
Old Truck (cost)		23,000
Cash		700

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Solution 3 SIMULATION 1 SITUATION 1 ANSWER

	A	B	C
1	**Account name**	**Debit**	**Credit**
2	Gain on sale	40,000	
3	Accumulated depreciation		15,000
4	Depreciation expense		5,000
5	Equipment		20,000
6			

Editor's Note: No entry is required on row 6; however, the AICPA's released solution does not enter this phrase into the row, as required by the directions.

Explanation:

The intercompany sale of equipment needs to be eliminated, and the accounts need to be adjusted for the normal depreciation expense that would have been recorded prior to the sale.

Row 2, column B: Cash of $120,000 was received on the sale of equipment with a net book value of $80,000, so the $40,000 Gain on sale needs to be reversed.

Row 3, column C: Accumulated depreciation of $20,000 was eliminated from Peterson's books in the original sale, and then Silver recognized accumulated depreciation of $15,000 ($120,000 ÷ 8) over the course of the year. The ending balance in accumulated depreciation should be $30,000 (3 years @ $10,000/year), requiring a $15,000 credit adjustment (beginning balance of $20,000 – $20,000 sale + $15,000 acquisition = $15,000 balance prior to consolidation entry.)

Row 4, column C: Normal depreciation would have been $10,000/year; Silver recorded $15,000, so there is a net credit adjustment of $5,000.

Row 5, column C: The intercompany sale of the equipment needs to be reversed (at cost).

Solution 3 SIMULATION 1 SITUATION 2 ANSWER

	A	B	C
1	**Account name**	**Debit**	**Credit**
2	Sales	50,000	
3	Inventory		8,000
4	Cost of goods sold		42,000
5			
6			

Editor's Note: No entry is required on rows 5 and 6. The AICPA's released solution leaves these rows blank.

Explanation:

The intercompany sale of inventory needs to be eliminated, and the ending balance in Silver's inventory needs to have the intercompany profit removed.

Row 2, column B: Intercompany sale of inventory needs to be reversed.

Row 3, column C: Peterson had a 40% gross profit margin in the sale to Silver. Silver sold 60% of the inventory, so 40% remains on the books. That 40% has intercompany profit which

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must be removed, requiring a credit adjustment of $8,000 ($50,000 inventory purchased by Silver times 40% remaining = $20,000 × 40% profit margin).

Row 4, column C: Reverse the $30,000 Cost of goods sold from the original sale to Silver and eliminate the $12,000 intercompany profit from COGS on the inventory that was subsequently sold by Silver ($50,000 × 60% × 40% profit) for a net credit adjustment of $42,000.

Solution 3 SIMULATION 2 ANSWER

	A	B
1	**Items**	**Amount**
2	The weighted average accumulated expenditures for year 2	$360,000
3	The interest incurred for all borrowings for year 2	$67,000
4	The avoidable interest for year 2	$40,650
5	The interest capitalized for year 2	$40,650
6	The interest expense for year 2	$26,350

<u>Explanation</u>:

The amount of interest cost to be capitalized is intended to be that portion of the interest cost incurred during the assets' acquisition periods that theoretically could have been avoided (for example, by avoiding additional borrowings or by using the funds expended for the assets to repay existing borrowings) if expenditures for the assets had not been made.

The amount capitalized in an accounting period shall be determined by applying the capitalization rate to the average amount of accumulated expenditures for the asset during the period. The capitalization rates are based on the rates applicable to borrowings outstanding during the period. If an entity's financing plans associate a specific new borrowing with a qualifying asset, the entity may use the rate on that borrowing (12%) as the capitalization rate to be applied to that portion of the average accumulated expenditures ($300,000) for the asset that does not exceed the amount of that borrowing. If average accumulated expenditures for the asset exceed the amounts of specific new borrowings ($60,000) associated with the asset, the capitalization rate to be applied to such excess shall be a weighted average of the rates (7.75%) applicable to other borrowings of the entity.

Row 2, column B:	$130,000 ×	12/12	=	$130,000	
	$240,000 ×	9/12	=	180,000	
	$200,000 ×	3/12	=	50,000	
				$360,000	
Row 3, column B:	$300,000 ×	12%	=	$ 36,000	
	100,000 ×	10%	=	10,000	
	300,000 ×	7%	=	21,000	
				$ 67,000	
Rows 4 and 5, column B:	$300,000 ×	12.0%	=	$ 36,000	
	60,000 ×	7.75%	=	4,650	
	$360,000			**$ 40,650**	
	$100,000 ×	10%	=	$ 10,000	
	300,000 ×	7%	=	21,000	
	400,000			31,000	31,000/400,000 = **7.75%**
Row 6, column B:	$ 67,000 –	440,650	=	**$ 26,350**	

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Solution 3 SIMULATION 3 ANSWER

FASB ASC:	230	-	10	-	45	-	3

Explanation:

45-3 Financial statements shall not report an amount of cash flow per share. Neither cash flow nor any component of it is an alternative to net income as an indicator of an entity's performance, as reporting per-share amounts might imply. Reporting a contractually determined per-unit amount, such as a per unit amount of cash flow distributable under the terms of a partnership agreement or other agreement between an entity and its owners, is not the same as reporting a cash flow per-share amount intended to provide information useful to all investors and creditors and, thus, is not precluded by this Subtopic.

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