



## FINAL EXAM

# Course # 171046 The Income Statement: Accounting And Reporting

based on the electronic .pdf file(s):

**The Income Statement:  
Accounting And Reporting**  
by: Delta CPE, 2014, 110 pages



6 CPE Credit Hours  
Accounting & Auditing

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Please note that you will still need to enter your answers on the online exam sheet for grading.*

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## **Chapter 0 - Course Material**

1. Which of the following is an advantage of the single-step income statement over the multiple-step income statement?
  - It reports gross profit for the year.
  - Expenses are classified by function.
  - It matches costs and expenses with related revenues.
  - It does not emphasize any one type of revenue or expense.
  
2. Which of the following is FALSE about the multi-step income statement?
  - It is used to emphasize certain sections and relationships.
  - It does not show income from operations for the period.
  - It contains separate sections for operating and nonoperating activities.
  - Expenses are also classified by functions.
  
3. In order to be classified as an extraordinary item in the income statement, an event or transaction should be
  - Unusual in nature, infrequent, and material in amount.
  - Unusual in nature and infrequent, but it need not be material.
  - Infrequent and material in amount, but it need not be unusual in nature.
  - Unusual in nature and material, but it need not be infrequent.
  
4. Which of these is generally an example of an extraordinary item?
  - Loss incurred because of a strike by employees.
  - Write-off of deferred marketing costs believed to have no future benefit.
  - Gain resulting from the devaluation of the U.S. dollar.
  - Gain resulting from the state exercising its right of eminent domain on a piece of land used as a parking lot.
  
5. How should an unusual event not meeting the criteria for an extraordinary item be disclosed in the financial statements?
  - Show in separate section above income before extraordinary items. Often reported in "Other revenues and gains" or "Other expenses and losses" section.
  - Shown in operating revenues or expenses if material but not shown as a separate item.
  - Shown net of income tax after ordinary net earnings but before extraordinary items.
  - Shown net of income tax after extraordinary items but before net earnings.
  
6. Which of the following is never classified as an extraordinary item?
  - Losses from a major casualty.
  - Losses from an expropriation of assets.
  - Gain on a sale of the only security investment a company has ever owned.
  - Losses from exchange or translation of foreign currencies.

7. Which of the following is a required disclosure in the income statement when reporting the disposal of a component of the business?

- The gain or loss on disposal should be reported as an extraordinary item.
- Results of operations of a discontinued component should be disclosed immediately below extraordinary items.
- Results of operations of a discontinued component should be disclosed in separate section after continuing operations but before extraordinary items.
- The gain or loss on disposal should not be segregated, but should be reported together with the results of continuing operations.

8. A material item which is unusual in nature or infrequent in occurrence, but not both, should be shown in the income statement

- NOT net of tax, and not disclosed separately
- Net of tax, and disclosed separately
- NOT net of tax, and disclosed separately
- Net of tax, but not disclosed separately

9. Which of the following items would be reported net of tax on the face of the income statement?

- Prior period adjustment
- Unusual gain
- Cumulative effect of a change in an accounting principle
- Discontinued operations

10. Which of the following items would be reported at its gross amount on the face of the income statement?

- Extraordinary loss
- Prior period adjustment
- Cumulative effect of a change in an accounting principle
- Unusual gain

11. During 2X13, Lopez Corporation disposed of Pine Division, a major component of its business. Lopez realized a gain of \$1,200,000, net of taxes, on the sale of Pine's assets. Pine's operating losses, net of taxes, were \$1,400,000 in 2X13. How should these facts be reported in Lopez's income statement for 2X13?

- Include \$1,400,000 loss in Income from Continuing Operations, and include \$1,200,000 gain in Results of Discontinued Operations.
- Include \$200,000 loss in Income from Continuing Operations, and include \$0 in Results of Discontinued Operations.
- Include \$0 in Income from Continuing Operations, and include \$200,000 loss in Results of Discontinued Operations.
- Include \$1,200,000 gain in Income from Continuing Operations, and include \$1,400,000 loss in Results of Discontinued Operations.

12. GAAP permits entities to account for their stock-based employee compensation plans in accordance with which of the following methods?

- The Fair-Value Based Method and the Intrinsic Value Based Method
- The Fair-Value Based Method, but not the Intrinsic Value Based Method
- The Intrinsic Value Based Method, but not the Fair-Value Based Method
- Neither the Fair-Value Based Method nor the Intrinsic Value Based Method

13. The measurement date in accounting for stock issued to employees in compensatory stock option plans accounted for in accordance with the fair value method is

The date on which options are granted to specified employees.

The earliest date on which both the number of shares to be issued and the option price are known.

The date on which the options are exercised by the employees.

The date the corporation forgoes alternative use of the shares to be sold under option.

14. The date on which to measure the compensation element in a stock option granted to a corporate employee ordinarily is the date on which the employee

Is granted the option.

Has performed all conditions precedent to exercising the option.

May first exercise the option.

Exercises the option.

15. The Black-Scholes Option-Pricing Model provides the relationship between call option value and the five factors that determine the premium of an option's market value over its expiration value.

The factors do NOT include:

Time to maturity.

Exercise price.

Stock price.

Risk-premium.

16. Which one of the following is NOT an option pricing model?

The Black-Scholes Model.

The Lattice Model.

The Binomial Model.

The 3D Model.

17. ASC 718-10

Prefers use of any one of three particular methods as the valuation techniques of choice

Does not specify a preference for a particular valuation technique or model in estimating the fair value of employee share options and similar instruments

Requires an entity to use the expected cash flows method as defined by Concept Statement No. 7

Is an option valuation principle

18. The \_\_\_\_\_ is based on the lower of the face of the policy, fair market value of the loss, or possible reimbursement.

Insurance premium.

Insurance recovery.

Insurance copayment.

Taxable loss.

19. SEC Staff Accounting Bulletin No. 67 requires restructuring charges to be \_\_\_\_\_ and presented as an element in computing income from operations.

Expensed.

Capitalized.

Amortized.

Deferred.

20. Website development costs are

Expensed.

Expensed or capitalized, depending on the stages.

Capitalized.

Amortized.

21. Where must earnings per share be disclosed in the financial statements to satisfy generally accepted accounting principles?

On the face of the statement of retained earnings (or, statement of stockholders' equity.)

In the footnotes to the financial statements.

On the face of the income statement.

Either (A) or (C).

22. Which of the following earnings per share figures must be disclosed on the face of the income statement?

EPS on income from continuing operations.

The effect on EPS from operations of a discontinued division, net of taxes.

The effect on EPS from an extraordinary item, net of taxes.

All of the above.

23. Earnings per share should always be shown separately for

Net income and gross margin.

Net income and pretax income.

Income before extraordinary items.

Extraordinary items and prior period adjustments.

24. In 2X13, Esther Corporation reported net income of \$1,000,000. It declared and paid preferred stock dividends of \$250,000 and common stock dividends of \$100,000. During 2X13, Esther had a weighted average of 200,000 common shares outstanding. Compute Esther's 2X13 earnings per share.

\$3.25

\$3.75

\$5.00

\$6.25

25. In 2X13, Benfer Corporation reported net income of \$350,000. It declared and paid common stock dividends of \$40,000 and had a weighted average of 70,000 common shares outstanding. Compute the earnings per share to the nearest cent.

\$4.43

\$3.50

\$4.50

\$5.00

26. In 2X13, Linz Corporation reported an extraordinary loss of \$1,000,000, net of tax. It declared and paid preferred stock dividends of \$100,000 and common stock dividends of \$300,000. During

2010, Linz had a weighted average of 200,000 common shares outstanding. Compute the effect of the extraordinary loss, net of tax, on earnings per share.

\$3.00

\$3.50

\$4.50

\$5.00

27. Which of the following is true?

Total comprehensive income = net income + OCI.

Total comprehensive income = net income + Retained earnings.

Accumulated other comprehensive income (AOCI) = net income + OCI.

Accumulated other comprehensive income (AOCI) = net income + Retained earnings.

28. Which of the following is included in comprehensive income?

Investments by owners.

Unrealized gains on available-for-sale securities.

Distributions to owners.

Changes in accounting principles.

29. Which of the following is not an acceptable way of displaying the components of other comprehensive income?

Combined statement of retained earnings.

Second income statement.

Combined statement of comprehensive income.

As part of the statement of stockholders' equity.

30. Jenny owns several works of art. At what amount should these artworks be reported in Jenny's personal financial statements?

Original cost.

Insured amount.

Smith's estimate.

Appraised value.

*Instructions for Submitting Answers Online:*

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- Click the "My CPE" tab at the top of the page.
- Click "My CPE Courses".
- Find the current CPE year and click "Go to My Courses".
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- Step 2 on the Course Syllabus page is "Take the Final Exam". Click the "Begin Final Exam" link.
- Enter your answers on the online exam sheet.

- *Click the "Grade Exam" button at the bottom of the page. Your exam will be graded automatically. If your score exceeds 70%, a "Create Certificate" button will display. Otherwise, you may continue to retake the exam until you pass.*
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