

Test Bank to Accompany

INTERMEDIATE

ACCOUNTING

FOURTH EDITION

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Test Bank to Accompany CHASTEEN/FLAHERTY/O'CONNOR INTERMEDIATE ACCOUNTING

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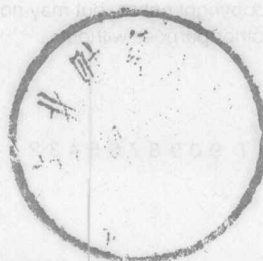
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Test Bank to Accompany
Chasteen/Flaherty/O'Connor:
INTERMEDIATE ACCOUNTING
Fourth Edition

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PREFACE

This Test Bank contains 1,142 examination questions, consisting of 798 multiple choice questions, 289 extended problems, and 55 essay questions, covering all of the chapters and appendices in the fourth edition of INTERMEDIATE ACCOUNTING by Chasteen, Flaherty, and O'Connor. The examination materials are arranged by chapters following the textbook order. Answers to the multiple choice questions, and solutions to the problems and essays are found at the end of each chapter. In addition, all of the multiple choice questions, problems, and essays are available in the form of a computerized textbank, RHTest and MicroTest. RH Test is to be used with IBM PC/PC-XT and true compatibles, and MicroTest is to be used with the MacIntosh.

The average number of questions, problems, and essays per chapter is: 38 multiple choice questions, 14 problems, and 2 essays. Each chapter contains two guides to assist the instructor in selecting examination materials. The first guide classifies the multiple choice questions by topic. The topics are arranged in alphabetical order. The second guide briefly describes each problem and essay question, along with a difficulty rating. The difficulty ratings are easy (1), medium (5), difficult (7), and very difficult (9). The numbers to the right of the ratings are for use with the computerized test bank. The difficulty ratings are included in both the guide which briefly describes each problem and essay, and in the solutions for the problems and essays. The multiple choice questions are divided into two groups, concepts (part I) and calculations (part II). Many new multiple choice questions and problems have been added to this edition, incorporating the significant changes that the authors made in the textbook. Many of the problems that were retained from the previous edition have new names, dates, dollar amounts, and changes in the problem requirements. No materials from professional examinations such as CPA, CMA, and CIA were used in this edition of the testbank.

We would like to request that instructors not make this testbank available to students. For instance, do not place this book on reserve in the library.

We would like to acknowledge Marjorie L. Falcon, CPA, for sharing her opinions, providing numerous suggestions, and typing a large portion of the testbank. Also, we would like to thank the staff at McGraw-Hill, Inc. (Johanna Schmid, Judy Motto, and all others) for providing so much assistance, and for their patience with this project.

Alan A. Cherry
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CHAPTER 1

FINANCIAL ACCOUNTING AND REPORTING: AN INTRODUCTION AND HISTORICAL DEVELOPMENT

GUIDE TO MULTIPLE CHOICE QUESTIONS

Below is a summary of the topics covered by the multiple choice questions.

<u>TOPIC</u>	<u>QUESTIONS</u>
AICPA	14
APB	4, 5, 20, and 24
FASB	5, 6, 7, 8, 10, 12, and 23
Financial reporting	11
GAAP	9, 19, and 20
IASC	22
Pre-formal-theory era	21
SEC	3, 13, 16, and 17
Users of financial accounting information	1, 2, and 18

GUIDE TO PROBLEMS

Below is a brief description of each problem, along with difficulty ratings.

25. Accounting Organizations Easy (1)

The student is asked to match the organizations listed with the brief descriptions given.

26. Events and Eras Easy (1)

The student is asked to match the eras of accounting development described in the text with significant events in the history of accounting.

27. Information for Investment, Credit, and Similar Decisions Easy (1)

The student is asked to match types of information with the categories shown in SFAC No. 5.

28. Financial Accounting Policy Makers

Easy (1)

The student is asked to match facts, such as dates of operations, with the three private sector policy making groups--CAP, APB, and FASB.

29. Financial Accounting Foundation

Easy (1)

The student is asked to list four of the eight organizations that sponsor the FAF.

GUIDE TO ESSAY QUESTIONS

Below is a brief description of each essay question, along with difficulty ratings.

30. The Role of Accounting Information in Securities Markets

Medium (5)

A brief essay that discusses the role of accounting information in the organized securities markets, such as the New York Stock Exchange, is required. The essay should include some discussion of the needs of external users, the importance of cash flows, and market efficiency.

31. The Demise of the Accounting Principles Board

Medium (5)

A brief essay which identifies and discusses four of the criticisms of the APB is required. The student must also describe the actions that were taken in response to the criticisms. This part of the essay should note the creation of the FASB.

32. The Economic Environment and Its Relationship to Financial Accounting and Reporting

Medium (5)

The student is asked to cite two of the examples given in the text of the economic environment influencing financial accounting. The change must be described and the reaction of the accounting policy makers must be noted.

33. The Economic Consequences of Accounting and Reporting Practices

Medium (5)

A brief essay dealing with the accounting for other postretirement benefits. This topic will be dealt with again later in the book.

34. The Importance of Ethics in Financial Accounting and Reporting

Medium (5)

The student is asked to describe in his or her own words why it is so vital for accountants to be highly ethical people.

35. Due Process and the FASB

Easy (1)

The student is asked to describe the nine steps in the FASB's due process procedure for issuing its standards.

CHAPTER 1

FINANCIAL ACCOUNTING AND REPORTING:
AN INTRODUCTION AND HISTORICAL DEVELOPMENT

MULTIPLE CHOICE: Indicate the answers to the following questions by placing the letter corresponding to the correct answer in the blank space.

- _____ 1. The users of financial accounting information who have a direct economic interest in a particular business include which of the following?
- a. Creditors and suppliers.
 - b. Financial analysts.
 - c. Regulatory authorities.
 - d. Stock exchanges.
- _____ 2. The users of financial accounting information who have an indirect economic interest in a particular business include which of the following?
- a. Financial analysts.
 - b. Management.
 - c. Owners.
 - d. Suppliers.
- _____ 3. Which statement below regarding the Securities and Exchange Commission (SEC) is not true?
- a. The Division of Corporation Finance is one of the parts of the SEC that is particularly important to the accounting profession.
 - b. The SEC is composed of five commissioners, one of whom is designated by the President to serve as chairman.
 - c. The SEC performs audits of registrants' financial statements.
 - d. The SEC was created in 1934 as a federal regulatory agency.
- _____ 4. The Accounting Principles Board (APB)
- a. Consisted solely of CPAs.
 - b. Had seven members.
 - c. Was independent of the AICPA.
 - d. Was established in 1938.
- _____ 5. The Financial Accounting Standards Board (FASB)
- a. Began its operations in 1959.
 - b. Cannot have members other than CPAs.
 - c. Has full-time, compensated members.
 - d. Has seventeen members.

- _____ 6. *FASB Interpretations*
- a. Have the same authority as *Statements of Standards*.
 - b. Modify or extend existing *Statements of Standards*.
 - c. Modify or extend predecessor documents.
 - d. Do all of the above.
- _____ 7. The first step in the process normally undertaken by the FASB in issuing either a *Statement of Standards* or a *Statement of Concepts* is
- a. Conducting research.
 - b. Holding a public hearing.
 - c. Identifying the problem.
 - d. Preparing a *Discussion Memorandum*.
- _____ 8. The major distinction between the FASB and its predecessor, the APB, is
- a. A majority of the members of the FASB are CPAs.
 - b. Members of the FASB are paid, serve full time, and are independent of any companies or institutions.
 - c. Members of the FASB possess extensive experience in financial reporting.
 - d. The FASB issues exposure drafts of proposed standards.
- _____ 9. Which organization has never been responsible for establishing generally accepted accounting principles (GAAP) in the United States?
- a. American Accounting Association.
 - b. American Institute of CPAs.
 - c. Financial Accounting Standards Board.
 - d. Securities and Exchange Commission.
- _____ 10. Which of the following is not an official pronouncement issued by the FASB?
- a. *Accounting Series Releases* (ASRs).
 - b. *Interpretations*.
 - c. *Statements of Financial Accounting Concepts* (SFACs).
 - d. *Technical Bulletins*.
- _____ 11. According to *SFAC No. 5*, financial reporting includes all of the following except
- a. Economic statistics.
 - b. Management discussion and analysis.
 - c. Oil and gas reserves information.
 - d. Statement of changes in financial position.

- _____12. An area directly affected by existing FASB standards is
- a. Discussion of competition and order backlog.
 - b. Letters to the stockholders.
 - c. Management discussion and analysis.
 - d. Notes to the financial statements.
- _____13. The Securities and Exchange Commission periodically issues
- a. *Accounting Research Bulletins* (ARBs).
 - b. Audit opinions.
 - c. *Financial Reporting Releases* (FRRs).
 - d. *Statements of Financial Accounting Concepts* (SFACs).
- _____14. Which of the following has never been a part of the AICPA?
- a. Accounting Principles Board
 - b. Accounting Standards Executive Committee
 - c. Committee on Accounting Procedures
 - d. Financial Accounting Foundation
- _____15. Which of the following is true in regard to the operations of the Accounting Principles Board (APB)?
- a. It issued 31 *Opinions* and four *Statements*.
 - b. It issued 51 *Accounting Research Bulletins* (ARBs).
 - c. It was a federal regulatory agency.
 - d. It was in existence from 1938 to 1959.
- _____16. The SEC is supported by a professional staff that consists primarily of
- a. Accountants.
 - b. Financial analysts.
 - c. Lawyers.
 - d. All of the above.
- _____17. Which statement best describes the relationship between the SEC and the accounting profession?
- a. The SEC has delegated both the responsibility to prescribe accounting principles and enforcement authority to the accounting profession.
 - b. The SEC has delegated only enforcement authority to the accounting profession.
 - c. The SEC has delegated only the responsibility to prescribe accounting principles to the accounting profession.
 - d. The SEC has not delegated any power to the accounting profession.

- _____18. Financial accounting information is particularly desirable if it helps investors, creditors, and others to assess the
- a. Amounts and timing of future cash flows.
 - b. Amounts of future cash balances.
 - c. Amounts, timing, and uncertainty of future cash flows.
 - d. Amounts, timing, and uncertainty of past cash flows.
- _____19. GAAP consists of all of the following except
- a. Financial accounting and reporting assumptions.
 - b. Financial accounting and reporting practices.
 - c. Financial accounting and reporting standards.
 - d. Financial accounting and reporting theories.
- _____20. Financial accounting and reporting standards require that managers and accountants must make all of the following except
- a. Assumptions.
 - b. Estimates.
 - c. Guesses.
 - d. Professional judgments.
- _____21. Which institutional factor during the pre-formal-theory era contributed to the development of depreciation concepts?
- a. The growth of railroads.
 - b. The introduction of a minimum wage.
 - c. The invention of calculators that could perform long division.
 - d. The payment of dividends to investors.
- _____22. What are the objectives of the International Accounting Standards Committee (IASC)?
- a. To formulate and publish in the public interest accounting standards to be observed in the presentation of financial statements.
 - b. To promote the worldwide acceptance and observance of its accounting standards.
 - c. To work for the improvement and harmonization of regulations, accounting standards and procedures relating to the presentation of financial statements.
 - d. All of the above.

- _____ 23. The Financial Accounting Foundation (FAF) does all of the following except
- a. Appoints the members of the FASB.
 - b. Exercises general oversight of the FASB's operations.
 - c. Exercises its veto power when it does not approve of an FASB pronouncement.
 - d. Obtains and manages the FASB's funding.
- _____ 24. One of the specific complaints about the Accounting Principles Board (APB) was
- a. The excessive output of official pronouncements (over 100 *Opinions*).
 - b. The failure of the Board to develop a theoretical framework for financial accounting and reporting.
 - c. The too-general nature of the APB *Opinions*.
 - d. The highly theoretical research underlying so many of the APB *Opinions*.

PROBLEMS**25. Matching - Accounting Organizations**

Match the organizations below to the numbered descriptions by placing the correct letter (A through I) in the blank in front of each description. The choices may be used more than once.

- | | | |
|---------|---------|----------------------|
| A. APB | B. CAP | C. Dingell Committee |
| D. FASB | E. FEI | F. GASB |
| G. NAA | H. NCAA | I. SEC |

- _____ 1. A committee of the AICPA that was organized in 1938.
- _____ 2. A federal regulatory agency.
- _____ 3. Interested in managerial accounting.
- _____ 4. Issued *Accounting Research Bulletins*.
- _____ 5. Issues *Financial Reporting Releases*.
- _____ 6. Issues *Interpretations* which modify or extend existing pronouncements.
- _____ 7. Issued *Opinions*.
- _____ 8. Issues *Statements of Financial Accounting Standards*.
- _____ 9. Publishes *The Financial Executive*.
- _____ 10. Was criticized because of its large size.

26. Matching - Events and Eras

Three eras of accounting have been identified: the pre-formal-theory era (before 1930), the problem-solving era (1930-1972), and the conceptual-framework era (since 1972). Listed below are several events significant to the development of accounting and accounting standards. Match each of the events to the proper era by placing the appropriate letter (A, B or C) in the blank at the left of each numbered event.

- A. Pre-formal-theory era
- B. Problem-solving era
- C. Conceptual framework era

- _____ 1. The Accounting Principles Board (APB) was established.
- _____ 2. Accounting standards were largely determined by individual accountants in response to the situations they encountered.
- _____ 3. The AIA recognized the needs of investors and creditors for accounting information.
- _____ 4. The Committee on Accounting Procedure (CAP) was established.
- _____ 5. Congressional hearings were held on the status of the accounting profession.
- _____ 6. The FASB published *Statement of Concepts No. 5*.
- _____ 7. The FASB was created.
- _____ 8. The growth of railroads influenced accounting practices.
- _____ 9. The Industrial Revolution increased the need for accounting information.
- _____ 10. The laissez-faire attitude toward accounting practices that existed in the previous period was criticized.
- _____ 11. The Report of the Study Group on the Objectives of Financial Statements (Trueblood Committee) was completed.
- _____ 12. The SEC was established.

27. Matching - Information Used in Investment, Credit, and Similar Decisions

For each numbered item listed below, indicate what type of information it is by placing the correct letter from the categories shown (A through E) in the blank next to each item.

- A. Financial statements
- B. Notes to financial statements (and parenthetical disclosures)
- C. Supplementary information
- D. Other means of financial reporting
- E. Other information

- _____ 1. Accounting policies.
- _____ 2. Alternative measures (market values of items carried at historical cost).
- _____ 3. Analysts' reports.
- _____ 4. Changing prices disclosures.
- _____ 5. Income statement.
- _____ 6. Inventory methods.
- _____ 7. Management discussion and analysis.
- _____ 8. News articles about company.
- _____ 9. Contingencies.
- _____ 10. Oil and gas reserves information.
- _____ 11. Special reports for lenders, such as banks.
- _____ 12. Statement of cash flows.

28. Matching - Financial Accounting Policy Makers

For each numbered fact listed below, indicate to which of three policy making groups it relates by placing the appropriate letter (A, B, or C) in the blank at the left. Some of the facts may relate to more than one policy maker, and you should use more than one letter where necessary.

- A. Committee on Accounting Procedures (CAP)
- B. Accounting Principles Board (APB)
- C. Financial Accounting Standards Board (FASB)

- _____ 1. All of the members had to be CPAs.
- _____ 2. Had seven members at all times.
- _____ 3. Had between 18 and 21 members.
- _____ 4. Had 21 members at all times.
- _____ 5. Issued 31 *Opinions* and four *Statements*.
- _____ 6. Issued 51 *Accounting Research Bulletins* (ARBs).
- _____ 7. Issued 100+ *Standards* and six *Concept Statements*.
- _____ 8. Was part of the American Institute of Certified Public Accountants (AICPA).
- _____ 9. Was part of the private sector and not part of any government.
- _____ 10. Worked from 1938 to 1959.
- _____ 11. Worked from 1959 to 1973.
- _____ 12. Worked from 1973 to present.

29. Financial Accounting Foundation (FAF)

In the spaces provided below, list any four of the eight organizations that sponsor the Financial Accounting Foundation.
