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Quizzer

Outline Of Opinions Of The Accounting Principles Board

UNITED STATES GENERAL ACCOUNTING OFFICE

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QUIZZER

OUTLINE OF OPINIONS OF THE ACCOUNTING PRINCIPLES BOARD AICPA

PREPARED FOR ADVANCED ACCOUNTING AND AUDITING STUDY PROGRAM

UNITED STATES GENERAL ACCOUNTING OFFICE
OFFICE OF PERSONNEL MANAGEMENT
WASHINGTON, D.C. 20548
1972

INTRODUCTION

This booklet has been prepared by professional staff members of the General Accounting Office for use in its Advanced Accounting and Auditing Study Program--CPA Review Course--given annually in Washington and in Regional Offices. The primary purpose of the booklet is to provide the professional staff member with a systematic method for making a comprehensive review of the Opinions of the Accounting Principles Board.

In order to adequately cover all essential points necessary for a thorough review, the staff members who prepared these questions obtained the ideas and information from a detailed analysis of the material in the "Opinions of the Accounting Principles Board."

U. S. GENERAL ACCOUNTING OFFICE

CPA REVIEW COURSE

I. QUESTIONS ON THE "APB OPINIONS"

Indicate whether each statement is "true" (T) or "false" (F) or supply short answers where appropriate.

APB OPINION NO. 1--NEW DEPRECIATION GUIDELINES AND RULES

1-1. Depreciable lives shorter than those found in the IRS Guidelines may be used if they are justifiable as reflecting the taxpayer's existing or intended retirement and replacement practices. ________

1-2. Tax effect accounting should be introduced where the depreciable lives previously used for accounting purposes are still considered reasonable and presumably will be continued, but Guideline lives might be adopted for tax purposes when the accumulated depreciation for tax purposes exceeds that on the books. ________

APB OPINION NO. 2--ACCOUNTING FOR THE "INVESTMENT CREDIT"

2-1. The "subsidy by way of a contribution to capital" concept of the investment credit is the least rational because it concludes that the investment credit increases the net income of some accounting period(s). ________

2-2. The full amount of the investment credit is treated for income tax purposes as a reduction in the basis of the property. ________

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2-3. An investment credit should be reflected in the financial statements only to the extent that it has been used as an offset against income tax liability. ________

2-4. Unused investment credits may not be carried back or forward to other years. (See Opinion #4) ________

APB NO. 3--THE STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SUPERSEDED BY APB NO. 19

APB OPINION NO. 4--ACCOUNTING FOR THE "INVESTMENT CREDIT"

4-1. The investment credit should be reflected in net income over the productive life of acquired property and not in the year in which it is placed in service. ________

4-2. The Board believes that the method of treating the investment credit as a reduction of Federal income taxes in the year the credit arises is preferable and that the alternative method as a reduction in cost of future accounting periods is acceptable. ________

4-3. Disclosure of the method used in computing the investment credit is not necessary, since the method would be readily determined by examining the financial statements. ________

APB OPINION NO. 5--REPORTING OF LEASES IN FINANCIAL STATEMENTS OF LESSEE

5-1. Where it is clearly evident that the transaction involved is in substance a purchase, the "leased" property should be included among the assets of the lessee with suitable accounting for the corresponding liabilities and for the related charges in the income statement. ________

5-2. The measurement of the asset value and the related liability for leases that are in substance installment purchases, involves two steps: (1) the determination of the part of the rentals which constitutes payment for property rights, and (2) the discounting of those rentals at an appropriate rate of interest. ________

5-3. On the balance sheet the capitalized rentals should be grouped with other property accounts, but separately disclosed, while the liability is classified as a long term obligation. ________

5-4. When an equity in the property is not created, the lease contracts represent nothing more than executory contracts requiring continuing performance on the part of both the lessor and the lessee for the full period covered by the leases. ________

5-5. The rights and obligations related to unperformed portions of executory contracts are not recognized as assets and liabilities in financial statements under generally accepted accounting principles, but should be disclosed in separate schedules or notes to the financial statements. ________

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5-6. For installment purchases of property, it is appropriate to depreciate the capitalized amount for property over its estimated useful life rather than over the initial period of the lease. ________

5-7. Indicate whether the following four statements are true or false. A lease is in substance a purchase when the lease is noncancelable and:

(a) The property was acquired by the lessor to meet the special needs of the lessee and will probably be usable only for that purpose and only by the lessee. ________

(b) The term of the lease corresponds substantially to the estimated useful life of the property, and the lessor is obligated to pay costs such as taxes, insurance, and maintenance. ________

(c) The lessee has guaranteed the obligations of the lessor with respect to the property leased. ________

(d) The leasee has not treated the lease as a purchase for tax purposes. ________

5-8. When the lessor and lessee are related, a lease should be recorded as a purchase by the lessee when (1) lease payments are pledged to secure the debts of the lessor or (2) the lessee has significant control or influence over the lessor's actions with respect to the lease. ________

5-9. Indicate by true or false answers whether the following four statements illustrate situations in which the conditions in the above question (#5-8) are frequently present:

(a) The lessor is an unconsolidated subsidiary of the lessee, or the lessee and the lessor are subsidiaries of the same parent and either is unconsolidated. ________

(b) The lessee and the lessor have common officers, directors, or shareholders to a significant degree. ________

(c) The lessor has been created, directly or indirectly, by the lessee and is substantially dependent on the lessee for its operations. ________

(d) The lessee (or its parents) has the right, through options or otherwise, to acquire control of the lessor. ________

5-10. The Board is of the opinion that the sale and the leaseback usually can be accounted for as independent transactions. ________

5-11. The principal details of any material sale-and-leaseback arrangement should be disclosed in the year in which the transaction originates. ________

APB OPINION NO. 6--STAT
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ARB, CHAPTER IB--TREASU

6-1. When a corpo stock for re excess of pr value, the e to capital i

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APB OPINION NO. 6--STATUS OF ACCOUNTING RESEARCH BULLETINS

ARB, CHAPTER IB--TREASURY STOCK

6-1. When a corporation purchases its own stock for retirement purposes at an excess of price over par or stated value, the excess should be credited to capital in excess of par. ________

6-2. When a corporation purchases its own stock for other than retirement purposes:

(a) Gains on sales of treasury stock not previously accounted for as constructively retired should be credited to retained earnings. ________

(b) Losses may be charged to capital in excess of par to the extent that previously net gains from sales or retirements of the same class of stock are included therein, otherwise to retained earnings. ________

6-3. Treasury stock delivered to effect a "pooling of interests" should be accounted for as though it were a reissue. ________

ARB 43, CHAPTER 3A--CURRENT ASSETS AND CURRENT LIABILITIES

6-4. Unearned discounts (other than cash or quantity discounts and the like), finance charges and interest included in the face amount of receivables should be shown as accrued revenue. ________

ARB 43, CHAPTER 9B--DEPRECIATION ON APPRECIATION

6-5. Whenever appreciation has been recorded on the books, income should be charged with depreciation computed on the written up amounts. ________

6-6. When an asset is written up to reflect market value, there must be proper disclosure of the fact. ________

ARB 43, CHAPTER 15--UNAMORTIZED DISCOUNT, ISSUE COST, AND REDEMPTION PREMIUM ON BONDS REFUNDED

6-7. Amortization over the life of the new issue is appropriate under circumstances where the refunding takes place because of currently lower interest rates or anticipation of higher interest rates in the future. ________

APPENDIX A--DISCLOSURE OF DEPARTURES FROM OPINIONS OF APB

6-8. Generally accepted accounting principles and the opinions of the APB are those which have "substantial authoritative support." ________

6-9. Substantial authoritative support cannot exist for accounting principles that differ from Opinions of the APB. ________

6-10. If an accounting principle being used differs materially from an APB opinion, and if it does not have substantial authoritative support, an opinion must be disclaimed. ________

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APB OPINION NO. 7--

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APB OPINION NO. 7--ACCOUNTING FOR LEASES IN FINANCIAL STATEMENTS OF LESSORS

7-1. The operating method is generally appropriate for measuring periodic net income from leasing activities of entities engaged in, perhaps among other things, lending money at interest. ________

7-2. The operating method should be used when the lessor retains the usual risks and rewards of ownership. ________

7-3. The operating method applies to short-term as well as long term leases. ________

7-4. Under the financing method, the excess of the aggregate rentals over cost (reduced by residual value at the termination of the lease) is in the nature of interest, and should be recognized as revenue during the terms of the lease in decreasing amounts related to the declining balance of the unrecovered investment. ________

7-5. Leases accounted for on the financing method by the lessor do not necessarily have to be capitalized by the lessee. ________

7-6. When the financing method is used, the investment should be classified with or near property, plant and equipment and a description used along the lines of "investment in leased property." ________

7-7. In addition to an appropriate description in the balance sheet of the investment in property held for or under lease, the principal accounting methods used in accounting for leasing activities should be disclosed. ________

APB OPINION NO. 8--ACCOUNTING FOR THE COST OF PENSION PLANS

8-1. Costs based on past service costs should be charged off over some reasonable period, provided the allocation is made on a systematic and rational basis. ________

8-2. Costs based on current and future services should be systematically accrued during the expected period of active service of the covered employees. ________

8-3. The computation of pension cost for accounting purposes requires the use of actuarial techniques and judgment. ________

8-4. The actuarial cost methods and their application for accounting purposes may differ from those used for funding purposes. ________

8-5. The Opinion applies to unfunded plans as well as to insured plans and deferred profit-sharing plans. ________

8-6. The annual provision for pension cost should be based on an accounting method that uses a standardized actuarial cost method. ________

8-7. If the company has a legal obligation for pension cost in excess of amounts paid or accrued, the excess should be shown in the balance sheet as both a liability and a deferred charge. ________

8-8. Actuarial gains and losses should be spread over the current year and future years with one of the exceptions being a merger being treated as a pooling of interest. ________

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8-9. A company that has more than one pension plan should use the same actuarial cost method in order to comply with the consistency application. ________

8-10. Insured plans are forms of funding arrangements and their use should not affect the accounting principles applicable to the determination of pension cost. ________

8-11. In unfunded plans, pension cost should be determined under an acceptable actuarial cost method in the same manner as for funded plans. ________

8-12. Disclosure is only necessary for pension plans when a method used to compute the provision varies from Opinion No. 8. ________

8-13. When a company changes its method of accounting for pension cost, the APB believes that pension cost provided under an acceptable method of accounting in prior periods should not be changed subsequently. ________

8-14. Any unamortized prior service cost on the effective date of Opinion No. 8 may be treated as though it arose from an amendment of the plan on that date rather than on the actual dates of adoption or amendment of the plan. ________

The following questions pertain to actuarial cost methods:

8-15. Under the unit credit method, future service benefits are funded as they accrue. ________

8-16. The unit credit method is frequently used where the benefit is a fixed amount or where the current year's benefit is based on earnings of a future period. ________

8-17. The projected benefit cost method assign the entire cost of an employee's projected benefits to past, present and future periods. ________

APB OPINION NO. 9--REPORTING THE RESULT OF OPERATIONS

9-1. Under the "current operating performance" concept, it is appropriate to include extraordinary items but exclude prior period adjustments from net income of the current period. ________

9-2. Under the "all inclusive" concept, net income is presumed to include all transactions affecting the net increase or decrease in pro-priorship equity during the current period. ________

9-3. According to Opinion No. 9, extraordinary items should be segregated from the results of ordinary operations and shown separately in the income statement, with disclosure of the nature and amounts thereof. ________

9-4. The write-down of receivables, inventories, or research and development costs which have a material effect on the income for the period would be classified as extraordinary items. ________

9-5. Prior period adjustments relate to events or transactions which occurred in a prior period of which the accounting effects could not be reasonably estimated.

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9-6. Treatment as prior period adjustments should not be applied to the normal, <u>recurring</u> corrections and adjustments which are the natural results of the use of estimates inherent in the accounting process.

9-7. Adjustments made pursuant to a quasi-reorganization should be included in the determination of net income or the results of operations.

9-8. The Board strongly recommends that earnings per share be disclosed in the statement of income.

9-9. When used without qualification, earnings per share refers to the amount of earnings applicable to each share of common stock or other residual security outstanding.

9-10. The term earnings per share should first be used with respect to outstanding shares of senior securities (e.g., preferred stock).

9-11. In case of a net loss for the period, the amount of the loss should be increased by any cumulative preferred stock for the period in order to arrive at earnings applicable to common stock.

9-12. Earnings per share should be computed on the number of outstanding shares at the end of the accounting period.

9-13. The claims of senior shares on earnings should be deducted from net income before computing per share amounts applicable to residual securities.

9-14. If shares outstanding change after the close of the year but before the statements are issued, as in a stock split, show two amounts of earnings per share. ________

9-15. When preferred stock is converted to common, earnings per share based on the new shares outstanding should be shown as supplementary information. ________

APB OPINION NO. 10--OMNIBUS OPINION--1966

Consolidated Financial Statements

10-1. In reporting periodic consolidated net income, the earnings or losses of the unconsolidated subsidiary should generally be consolidated. ________

10-2. Subsidiaries whose primary business is leasing property to the parent should be presented under the equity method in consolidated financial statements. ________

Pooling of Interest--Restatement of Financial Statements

10-3. In a pooling of interest combination, statements of results of operations issued by the continuing business for the period in which the combination occurs should include the combined results of operations from the time of consummation to the end of the period. ________

10-4. Prior years statements shown for comparative purposes should be restated on a combined basis. ________

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Offsetting Securities against Taxes Payable

10-5. It is a general principle of accounting that the offsetting of assets and liabilities in the balance sheet is improper in all cases.

Liquidation Preference of Preferred Stock

10-6. Financial statements should disclose aggregate or per share amounts at which preferred shares can be called.

Installment Method of Accounting

10-7. The installment method of accounting is acceptable when collection is reasonably assured.

APB OPINION NO.11--ACCOUNTING FOR INCOME TAXES

11-1. Intraperiod tax allocation is the process of apportioning income taxes among periods.

11-2. Timing differences, which result in the interperiod allocation of income taxes, originate in one period and subsequently reverse in another.

11-3. Revenues or gains which are included in taxable income after they are included in pretax accounting income would give rise to a timing difference.

11-4. Interperiod tax allocation is not appropriate to account for permanent differences since they do not affect other periods.

11-5. Under the liability method of tax allocation, the deferral is computed at the estimated rate for the year.

11-6. Under the deferred credit method, the accumulated balance is adjusted for changes in tax rates subsequent to the year of provision.

11-7. Under comprehensive allocation, all tax effects are allocated except permanent differences.

11-8. When the tax benefits of loss carryforwards are not recognized until realized in full or in part in subsequent periods, the tax benefits should be reported in the results of operations of those periods as extraordinary items.

11-9. The Board has concluded that tax allocation within a period should show the relationship between income tax expense and income before extraordinary items, extraordinary items, prior period adjustments, and direct entries to other stockholders' equity accounts.

11-10. Deferred taxes should be included in the retained earnings section of the balance sheet.

11-11. Balance sheet accounts related to tax allocation are of two types:

(1) Deferred charges and deferred credits.

(2) Refunds of past taxes or offsets to future taxes.

11-12. The only item in regard to taxes that needs to be disclosed is the tax effect of timing differences.

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APB OPINION NO. 12--OMNIBUS OPINION--1967

DISCLOSURE OF DEPRECIABLE ASSETS AND DEPRECIATION

12-1. Disclosure of the total amount of depreciation expense entering into the determination of results of operations has become a general practice.

12-2. Disclosures for depreciable assets should always include: depreciation expense for the period, accumulated depreciation, and a general description of the method used.

DEFERRED COMPENSATION CONTRACTS

12-3. Deferred contracts should be accounted for individually on an accrual basis.

12-4. Estimated amounts of future payments of deferred compensation contracts that provide for periodic payments to employees should be based on the minimum payable in the event of early death.

12-5. Amounts pertaining to deferred compensation contracts with employees actually employed, which have not been previously accrued, may be accrued over a period of 10 years if the remaining term of active employment is less than 10 years.

Capital Changes

12-6. Certain capital transactions "... should be excluded from the determination of net income or the results of operations under all circumstances."

APB OPINION NO. 13--AMENDING PARAGRAPH 6 OF APB NO. 9, APPLICATION TO COMMERCIAL BANKS

13-1. APB Opinion No. 9 (Reporting the Results of Operations) is applicable to financial statements issued by commercial banks for fiscal periods beginning after December 31, 1968. ________

APB OPINION NO. 14--ACCOUNTING FOR CONVERTIBLE DEBT AND DEBT ISSUED WITH STOCK PURCHASE WARRANTS

14-1. The portion of the proceeds from the issuance of convertible debt should be accounted for as attributable to the conversion feature. ________

14-2. The portion of the proceeds of debt securities issued with detachable stock purchase warrants which is allocable to the warrants should be accounted for as paid in capital. ________

14-3. When stock purchase warrants are not detachable from the debt and the debt security must be surrendered in order to exercise the warrant, the two securities taken together are substantially equivalent to convertible debt. ________

14-4. An advantage to the issuer having convertible debt is that it has a lower interest rate than does nonconvertible debt. ________

14-5. The inseparability of the debt and the conversion option is the most important reason given for accounting for convertible debt solely as debt. ________

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APB OPINION NO. 15--EARNINGS PER SHARE

15-1. A single "earnings per common share" presentation is recommended for capital structures that include no potentially dilutive convertible securities, options, warrants or other rights that upon conversion could in the aggregate dilute earnings per common share. ________

15-2. Fully diluted earnings per share are based on outstanding common shares and those securities that are in substance equivalent to common shares and have a dilutive effect. ________

15-3. The difference between primary and fully diluted earnings per share amounts shows the maximum extent of potential dilution of current earnings which conversions of securities that are not common stock equivalents could create. ________

15-4. Financial statements should include a description, in summary form, to explain the pertinent rights and privileges of the various securities outstanding. ________

15-5. Primary earnings per share data should be adjusted retroactively for conversions. ________

15-6. The determination of whether a convertible security is a common stock equivalent should be made only at the time of issuance and should not be changed thereafter so long as the security remains outstanding. ________

15-7. The dilutive effect of any convertible securities that were not common stock equivalents at time of their issuance should be included only in the fully diluted earnings per share amount. ________

15-8. Computation of primary earnings per share should always give effect to common stock equivalents such as convertible debt, convertible preferred stock, stock options and warrants, participating securities and two-class common stocks, and contingent shares. ________

15-9. Convertible securities should be considered common stock equivalents at the time of issuance if, based on its market price, it has a cash yield of less than 66-2/3 percent of the then current bank prime interest rate. ________

15-10. Options and warrants should always be considered common stock equivalents. ________

15-11. The "treasury stock" method should be used for warrants which require or permit the tendering of debt or other securities in payment for all or part of the exercise price. ________

15-12. The treasury stock method of reflecting use of proceeds from options and warrants may not adequately reflect potential dilution when options or warrants to acquire a substantial number of common shares are outstanding. ________

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15-13. The purpose of the fully diluted earnings per share presentation is to show the maximum potential dilution of current earnings per share on a prospective basis. ________

15-14. Fully diluted earnings per share data on the face of the income statements is required if shares of common stock were issued during the period on conversion or were contingently issuable at the close of any period presented. ________

APPENDIX A--COMPUTATION GUIDELINES

15-15. Interest charges applicable to convertible securities should not be taken into account in determining the balance of income applicable to common stock under the "if converted" method. ________

15-16. Under the two-class method, common stock equivalents are treated as common stock with a dividend rate different from the different rate on the common stock. ________

15-17. Prior period primary earnings per share should not be restated for changes in the conversion ratio or exercise prices for computing primary earnings per share for the period. ________

15-18. For purposes of computing earnings per share, contingently returnable shares placed in escrow should be treated in the same manner as contingently issuable shares. ________

15-19. Securities issued by a subsidiary should always be considered common stock equivalents on consolidated and parent company statements. ________

APB OPINION NO. 16--ACCOUNTING FOR BUSINESS COMBINATIONS

16-1. The two methods of accounting--purchase method and the pooling of interest method--are considered alternatives in accounting for the same combination. ________

16-2. The conditions for using the pooling of interest method are classified by attributes of the combining companies, manner of combining interests, and absence of planned transactions. ________

16-3. To be treated under the pooling method, each of the combining companies must be autonomous and has not been a subsidiary or division of another corporation with one year before the plan of combination is initiated. ________

16-4. Under the pooling method, only common and preferred stock of one company can be offered and issued in exchange for the stock of the other company. ________

16-5. Under the pooling method, the combined corporation does not intend to dispose of a significant part of the assets of the combining companies within two years after the combination other than disposals in the ordinary course of the business. ________

16-6. Dissolution of a combining company is not a condition for applying the pooling of interests method of accounting for a business combination. ________

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16-7. The stockholders' equities of the separate companies are combined as a part of the purchase method of accounting. ________

16-8. Under the pooling method, retained earnings or deficits of the separate companies are combined and recognized as retained earnings of the combined corporation. ________

16-9. The pooling of interest method records neither the acquiring of assets nor the obtaining of capital. ________

16-10. Under the pooling of interest method, costs incurred to effect a combination and to integrate the continuing operations are expenses of the combined corporation rather than as additions to assets. ________

16-11. Details need not be disclosed for results of operations of the previously separate companies for the period before the combination is consummated that are included in the current combined net income. ________

16-12. Under the purchase method, an asset acquired by incurring liabilities is recorded at the present value of the amounts to be paid. ________

16-13. The basis of measuring the cost of an asset had an effect on the subsequent accounting for that cost. ________

16-14. The excess of the cost of the acquired company over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed should be recorded as goodwill. ________

16-15. An acquiring corporation should periodically record as a part of income the accrual of interest on assets and liabilities recorded at acquisition date at the discounted values of amounts to be received or paid. ________

16-16. The value assigned to net assets acquired should not exceed the cost of an acquired company. ________

APB OPINION NO. 17--INTANGIBLE ASSETS

17-1. Costs of developing, maintaining, or restoring intangible assets which are not specifically identifiable, or are inherent in a continuing business and related to an enterprise as a whole, should be deducted from income when incurred. ________

17-2. Cost is measured the same for specifically identifiable intangible assets as for those lacking specific identification. ________

17-3. The costs of intangible assets should be amortized by systematic charges to income over the periods estimated to be benefited, not to exceed 20 years. ________

17-4. Amortization of acquired goodwill and of other acquired intangible assets not deductible in computing income taxes payable does not create a timing difference, and allocation of income taxes is inappropriate. ________

APB OPINION NO. 1

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APB OPINION NO. 18--THE EQUITY METHOD OF ACCOUNTING FOR INVESTMENTS IN COMMON STOCK

18-1. An "investee" refers to a corporation that issued voting stock held by an investor. ________

18-2. An "investor" refers to a business entity that holds an investment in voting stock of another company. ________

18-3. Under the equity method, an investor recognizes its share of the earnings or losses of an investee in the period in which an investee declares a dividend. ________

18-4. Investors should account for investments in common stock of all unconsolidated subsidiaries, (foreign, as well as domestic), by the equity method in consolidated financial statements. ________

18-5. The equity method is not adequate for fair presentation of those subsidiaries whose principal business activity is leasing property to its parent because the subsidiaries' assets and liabilities are significant to the consolidated financial position of the enterprise. ________

18-6. The Board is of the opinion that investors should account for investments in common stock of corporate joint ventures by the cost method. ________

18-7. An investor is presumed to exercise significant influence over operating and financial policies of an investee if the investor holds at least 50 percent of the voting stock. ________

18-8. An investor's voting stock interests in an investee should be based on those currently outstanding securities whose holders have present voting privileges as well as potential voting privileges. ________

18-9. In applying the equity method, a difference between the cost of an investment and the amount of underlying equity in net assets of an investee should be accounted for as if the investee were a consolidated subsidiary. ________

18-10. The significance of an investment to the investor's financial position and results of operations should be considered in evaluating the extent of disclosures of the financial position and results of operations of an investee. ________

APB OPINION NO. 19--REPORTING CHANGES IN FINANCIAL POSITION

19-1. The only objective of a funds statement is to complete the disclosure of changes in financial position during the period. ________

19-2. Issuing equity securities to acquire a building is both a financing and investing transaction that does not affect either cash or working capital, but should be disclosed in the funds statement. ________

19-3. When financial statements presenting the financial position and results of operations are issued, a statement summarizing changes in financial position should also be presented as a basic financial statement for ea
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ment for each period for which an income statement is presented.

19-4. An acceptable procedure for presenting the Statement is to begin with total revenue that provided working capital or cash during the period and deduct operating costs and expenses that required the outlay of working capital or cash during the period.

19-5. Extraordinary income or loss should only be adjusted for items recognized if they provided or used working capital or cash during the period.

19-6. Whether or not working capital flow is presented in the Statement, net changes in each element of working capital should be appropriately disclosed for at least the current period, either in the Statement or a related tabulation.

19-7. Conversion of long-term debt or preferred stock to common stock need not be disclosed in the Statement if no cash outlay is involved.

19-8. Isolated statistics of working capital or cash provided from operations, especially per-share amounts, should be presented in annual reports to shareholders.

APB OPINION NO. 20--ACCOUNTING CHANGES

20-1. The nature of and justification for a change in accounting principle and its affect on income should be disclosed in the Financial Statements of the period in which the change is made. ____________

20-2. Income before extraordinary items and net income computed on a pro forma basis should be shown on the face of the income statements for all periods presented as previously reported. ____________

20-3. The cumulative effect of changing to a new accounting principle or the amount of retained earnings at the beginning of the period in which the change is made should be included in net income of the period of the change. ____________

20-4. Financial statements for prior periods included for comparative purposes should be presented as previously reported. ____________

APB OPINION NO. 21--INTEREST ON RECEIVABLES AND PAYABLES

21-1. The discount or premium should not be reported in the balance sheet as a direct deduction from or addition to the face amount of the note; but should be classified as a deferred charge or deferred credit. ____________

21-2. The prevailing notes for similar instruments of issuers with similar credit ratings will normally help determine the appropriate interest rate for determining the present value of a note at its date of issuance. ____________

APB OPINION NO. 22--I

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APB OPINION NO. 23--A
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APB OPINION NO. 22--DISCLOSURE OF ACCOUNTING POLICIES

22-1. Disclosure of accounting policies should be given in a separate "Summary of Significant Accounting Policies" preceding the notes to financial statements or as the initial note. ____________

22-2. Information about the accounting policies adopted and followed by not - for - profit entities should not be presented as an integral part of their financial statements. ____________

22-3. Inventory pricing, accounting for research and development costs, translated of foreign currencies, and recognition of revenue from franchising and leasing operations are examples of disclosures with respect to accounting policies. ____________

APB OPINION NO. 23--ACCOUNTING FOR INCOME TAXES - SPECIAL AREAS

23-1. Information concerning undistributed earning of a subsidiary for which income taxes have not been accrued should be disclosed in notes to the financial statements. ____________

23-2. No income taxes should be accrued by the parent company if sufficient evidence shows that the subsidiary has invested or will invest the undistributed earnings indefinitely. ____________

23-3. It should be presumed that all undistributed earnings of a subsidiary will be transferred to the parent company. ____________

23-4. If it becomes apparent that there is an adjustment to the undistributed earnings of a subsidiary, the parent company should adjust the income tax expense for the current period; such adjustment should be accounted for as an extraordinary item. ___________

23-5. A savings and loan association should provide income taxes on the difference between taxable income and pretax accounting income attributable to a bad debt reserve. ___________

23-6. A stock life insurance company should accrue income taxes on the difference between taxable income and pretax accounting income attributable to amounts designated as policyholders' surplus. ___________

APB OPINION NO. 24--ACCOUNTING FOR INCOME TAXES - (INVESTMENTS IN COMMON STOCK ACCOUNTED FOR BY THE EQUITY METHOD)

24-1. If evidence indicates that an investor's equity in undistributed earnings of an investee will be realized in the form of dividends, an investor should recognize income taxes attributable to the timing difference as if the equity in the investee's earnings were remitted as a dividend during the period. ___________

24-2. The amount of deferred income taxes if the investor attributable to its share of the equity in earnings of the investee company should not be considered in accounting for a disposition through sale or other transaction that reduces the investment. ___________

APB OPINION NO. 25

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APB OPINION NO. 2

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APB OPINION NO. 25--ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES

25-1. An employer corporation recognizes no compensation for services in computing consideration received for stock issued through noncompensatory plans.

25-2. Compensation for services that a corporation receives as consideration for stock issued through employee stock option, purchase, and award plans should be measured by the quoted market price of the stock at the measurement date less the amount, if any, the employee is required to pay.

25-3. Quoted market price and fair value of a share of stock are synonomous.

25-4. The measurement date for determining compensation cost in stock option plans is the first date on which are known both (1) the number of shares an employee is entitled to receive and (2) the option price, if any.

25-5. A corporation's deduction for income tax purposes may differ from the related compensation expense the corporation recognizes.

APB OPINION NO. 26--EARLY EXTINGUISHMENT OF DEBT

26-1. Any difference between reacquisition price and net carrying amount of extinguished debt should be recognized currently in income of the period of extinguishment as losses or gains.

26-2. Any difference between cash acquisition price of convertible debt and its net carrying amount should be recorded as an increase in stockholders' equity.

APB OPINION NO. 27--ACCOUNTING FOR LEASE TRANSACTIONS BY MANUFACTURER OR DEALER LESSORS

27-1. Prime consideration must be directed to whom retains the risks and rewards of ownership in determining if a lease is in fact a sale.

27-2. When a lease transaction is recorded as a sale, the manufacturer or dealer should, in that period, recognize as income the present value of the required rental payments during the fixed lease period and charge against income both the cost of the property and the estimated future costs of the lease.

II. ANSWERS TO QU

APB OPINION #1

1-1. True

1-2. True

APB Opinion #2

2-1. False - I c s c c

2-2. True

2-3. True

2-4. False - T a W s

APB OPINION #3

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APB OPINION #4

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II. ANSWERS TO QUESTIONS ON "APB OPINIONS"

APB OPINION #1

1-1. True

1-2. True

APB Opinion #2

2-1. False - This concept is the least rational because it runs counter to the conclusion that the investment credit increases the net income of some accounting period(s).

2-2. True

2-3. True

2-4. False - The accounting for these carrybacks and carryforwards should be consistent with the provisions of Accounting Research Bulletin No. 43, chapter 10 (b), "Income Taxes," paragraphs 16 and 17.

APB OPINION #3

SUPERSEDED BY APB NO. 19

APB OPINION #4

4-1. True

4-2. False - The reverse of the statement is true.

4-3. False - The Board emphasizes that whichever method of accounting for the investment credit is adopted, it is essential that full disclosure be made of the method followed and amounts involved, when material.

APB OPINION #5

5-1. True

5-2. True

5-3. False - The liability should be divided into its current and long-term portions and shown in the appropriate classfication.

5-4. True

5-5. True

5-6. True

5-7.(a) True

(b) False - Since lessor pays costs.

(c) True

(d) False - The reverse is true.

5-8. True

5-9.(a) True

(b) True

(c) True

(d) True

5-10. False - Sale and leaseback usually cannot be accounted for as independent transactions.

5-11. True

APB OPINION #6

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APB OPINION #6

6-1. False - If purchased at an excess of par or stated value over purchase price, then the total excess should be credited to capital in excess of par.

6-2a. False - Gains-credited to capital in excess of par.

b. True

6-3. False - Treasury stock delivered to effect a "pooling of interests" should be accounted for as though it were newly issued, and the cost thereof should receive the accounting treatment appropriate for retired stock.

6-4. False - They should be shown as a deduction from the related receivables.

6-5. True

6-6. False - The Board is of the opinion that property plant and equipment should not be written up by an entity to reflect appraisal, market or current values which are above cost to the entity. This statement may not apply to foreign operations under unusual conditions such as serious inflation or currency devaluation.

6-7 True - In such circumstances, the expected benefits justify spreading the costs over the life of the new issue, and this method is, therefore, acceptable.

6-8. True - The authority of the opinions rests upon their general acceptability.

6-9. False - The burden of justifying departures from APB Opinions must be assumed by those who adopt other practices. Also departures from the Board Opinions must be disclosed in footnotes to the financial statements or in independent auditors' reports when the effect of the departure on the financial statements is material.

6-10. False - In such circumstances, an auditor can qualify, disclaim or give an adverse opinion.

APB OPINION #7

7-1. False - The financing method would be used under these circumstances.

7-2. True - The other method--financing method--should be used when the lessor assumes only the credit risks generally associated with secured loans.

7-3. True - The financing method applies to long-term leases only.

7-4. True

7-5. True

7-6. False - The method of reporting described applied to the operating method. For the financial method a proper description would be "contracts receivable for equipment rentals."

7-7. True

APB OPINION #8

8-1. True

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8-4. True

8-5. False - The Opinion applies to written, implied, unfunded, insured, and trust fund plans. It does not apply to deferred profit-sharing plans unless it is part of an arrangement that is in substance a pension plan.

8-6. False - Provision is based on an accounting method that uses an acceptable actuarial cost method and results in a provision between a minimum and maximum stated amount. (See Page 16 of the Outline of Opinions of the APB.)

8-7. True - Question 8-7 is an exception to the rule that an unfunded prior service cost is not a liability which should be shown in the balance sheet.

8-8. False - The two exceptions of actuarial gains and losses not being spread over current and future years are:

(1) Gains and losses that arose from a single occurrence (Merger-<u>purchase</u> method)

(2) Under variable annuity and similar plans.

8-9. False - The accounting for each plan need only conform to this Opinion.

8-10. True

8-11. True - However, because there is no fund to earn the assumed rate of interest, the pension-cost provision for the current year should be increased by an amount equivalent to the interest that would have been earned in the current year if the prior-year provisions had been funded.

8-12. False -

8-13. True - The effect on prior-year cost of a change in accounting method should be applied to the cost of the current year and future years, in a manner consistent with the conclusions of this Opinion. (Such changes might include a change in the actuarial cost method, in the amortization of past and prior service cost, or in the treatment of actuarial gains and losses.

8-14. True

8-15. True -

8-16. False - The unit credit method is not frequently used in the examples mentioned. It is almost always used when the funding instrument is a group annuity contract. It may also be used in trusteed plans and deposit administration contracts where the benefit is a stated amount per year of service.

8-17. True

APB OPINION #9

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9-9. True

APB OPINION #9

9-1. False - Both extraordinary items and prior period adjustments should be excluded under this concept. The principal emphasis is upon the ordinary, normal, recurring operations of the entity during the current period.

9-2. True - Exceptions to the statement are dividend distributions and transactions of a capital nature.

9-3. True

9-4. False - Certain gains or losses, regardless of size, do not constitute extraordinary items because they are of the character typical of the customary business activities of the entity. Disclosure is recommended for such items.

9-5. True - Examples are material, nonrecurring adjustments or settlements of income taxes, of renegotiation proceedings or of utility revenue under rate processes.

9-6. True - Examples include changes in the estimated remaining lives of fixed assets and immaterial adjustments of provisions for liabilities.

9-7. False - Also exclude adjustments or charges or credits resulting from transactions in the company's own capital stock, and transfers to and from accounts properly designated as appropriated retained earnings.

9-8. True

9-9. True

9-10. False - Earnings per share should not be computed for senior securities. Instead report on their "earnings coverage" (Number of times dividends required were earned.)

9-11. True

9-12. False - The computation of earnings per share should be based on the weighted average number of shares outstanding during the period.

9-13. True

9-14. False - The per share computations should be based on the new number of shares, on a pro forma basis, since the reader's primary interest is presumed to be related to the current capitalization. However, this fact should be disclosed.

9-15. True

APB OPINION #10

10-1. False - The subsidiary's earnings and losses should generally be presented as a separate item.

10-2. False - The equity method is not adequate for fair presentation in the case of these subsidiaries because of the significance of their assets and liabilities to the consolidated financial position of the enterprise.

10-3. False - The combined results of operations should be given for the entire period in which the combination was effected.

10-4. True

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10-7. False - Tl al su

APB OPINION #11

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10-4. True

10-5. False - The only exception to this principle is when it is clear that a purchase of securities is in substance an advance payment of taxes that will be payable in the near future.

10-6. True - Also disclose cumulative dividends in arrears on preferred stock and liquidation preference of preferred stock in excess of par.

10-7. False - The installment method is not acceptable when collection is reasonably assured.

APB OPINION #11

11-1. False - Intraperiod tax allocation is the apportioning of income tax expense between income before extraordinary items and extraordinary items.

11-2. True

11-3. True - An example would be the installment method--gross profits are recognized for accounting purposes in the period of sale but are reported for tax purposes in the period the installments are collected.

11-4. True

11-5. True

11-6. False - The deferred taxes are computed based on the tax rates in effect when the timing difference originated.

11-7. True - The Board concluded that income taxes should be allocated to financial periods using the comprehensive deferred method.

11-8. True

11-9. True

11-10. False - Deferred taxes represent tax effects recognized in the determination of income tax expense in current and prior periods, and they should, therefore, be excluded from retained earnings or from any other account in the stockholders' equity section of the balance sheet.

11-11. True - (1) Deferred charges and credits relate to timing differences.

(2) Refunds of past taxes and offsets to future taxes arise from the recognition of tax effects of carrybacks and carryforwards of operating losses and similar items.

11-12. False - In reporting the results of operations the components of income tax expense for the period that should be disclosed may include: (a) Taxes estimated to be payable, (b) Tax effects of timing differences, and (c) Tax effects of operating losses.

APB OPINION #12

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APB OPINION #13

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APB OPINION #14

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14-3. True

12-3. True - Such contracts customarily include certain requirements such as continued employment for a specified period and availability for consulting services and agreements not to compete after retirement.

12-4. False - Such estimates should be based on the life expectancy of each individual concerned or on the estimated cost of an annuity contract.

12-5. True

12-6. True - Paragraph 28, APB Opinion No. 9. Companies generally have reported the current year's changes in stockholders' equity accounts other than retained earnings in separate statements or notes to the financial statements when presenting both financial position and results of operations for one or more years.

APB OPINION #13

13-1. True

APB OPINION #14

14-1. False - No portion should be accounted for as attributable to the conversion feature.

14-2. True - Paragraph 16. The allocation should be based on the relative fair values of the two securities at time of issuance.

14-3. True

14-4. True - Paragraph 4. Another advantage is that it can be used as a means of raising equity capital.

14-5. True

APB OPINION #15

15-1. True

15-2. False - The statement applies to primary earnings per share; paragraph 15 of Opinion No. 15.

15-3. True

15-4. True -

15-5. False - However, it may be desirable to furnish supplementary per share data for each period presented, giving the cumulative retroactive effect of all such conversions or changes. Primary earnings per share should be related to the capital structures existing during each of the various periods presented.

15-6. True - Paragraph 28. However convertible securities outstanding or subsequently issued with the same terms as those of a common stock equivalent also should be classified as common stock equivalents.

15-7. True

15-8. False - Common stock equivalents, such as those mentioned in the statement, are

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included in the computation of earnings per share only when their inclusion has the effect of decreasing the earnings per share amount (no antidilution).

15-9. True

15-10. True - This is due since they have no cash yields and derive their value from their right to obtain common stock at specified prices for an extended period.

15-11. False - The "if converted" method should be used in these cases; paragraph 37.

15-12. True

15-13. True

15-14. True

15-15. False - Interest charges should be recognized for such purposes. See page 45 of the Outline of APB Opinions.

15-16. True - Under this method, conversion of convertible securities is not assumed.

15-17. True

15-18. True

15-19. False - Page 50 of the Outline discusses the following situations in which they would be included.

APB OPINION #16

16-1. False - The method used depends upon the circumstances. The arguments in favor of the purchase method are more persuasive if cash or other assets are distributed or liabilities incurred to effect a combination, but arguments in favor of the pooling of interest method are more persuasive if voting common stock is issued to effect a combination of common stock interests.

16-2. True

16-3. False - There is a two year restriction; page 51 of the Outline of APB Opinions

16-4. False - Only common stock can be offered and issued under the pooling method. Page 51.

16-5. True

16-6. True

16-7. False - The statement applies to the pooling of interest method of accounting.

16-8. True

16-9. True

16-10. True

16-11. False - Disclosure is necessary; paragraph 64.

16-12. True - This amount is known as its cost.

16-13. False - The <u>nature</u> of an asset and not the manner of its acquisition determines an acquirer's subsequent accounting for the cost of that asset; paragraph 69.

16-14. True

16-15. True

16-16. True - The
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APB OPINION #17

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APB OPINION #18

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18-4. True

18-5. True

16-14. True

16-15. True

16-16. True - The reasoning follows the general presumption in historical-cost that net assets acquired should be recorded at not more than cost.

APB OPINION #17

17-1. True

17-2. False - The cost of identifiable intangible assets is an assigned part of the total cost of the group of assets acquired. Costs of assets acquired less identified assets equals the cost of unidentified assets.

17-3. False - The period of amortization should not exceed 40 years.

17-4. True

APB OPINION #18

18-1. True

18-2. True

18-3. False - An investor recognizes its share of the earnings or losses of an investee in the periods for which they are reported by the investee in its financial statements.

18-4. True

18-5. True

18-6. False - Investors should account for investments in common stock of corporate joint ventures by the equity method, both in consolidated financial statements and in parent-company financial statements prepared for issuance to stockholders as the financial statements of the primary reporting entity.

18-7. False - In order to achieve a reasonable degree of uniformity in application, the Board concludes that an investment of 20% or more of the voting stock of an investee should lead to a presumption that in the absence of evidence to the contrary an investor has the ability to exercise significant influence over an investee.

18-8. False - Potential voting privileges which may become available to holders of securities of an investee should be disregarded.

18-9. True

18-10. True

APB OPINION #19

19-1. False - Another objective of a funds statement is to summarize the financing and investing activities of the entity, including the extent to which the enterprise has generated funds from operations during the period.

19-2. True - A funds statement should disclose separately the financing and investing aspects of all significant transactions that affect financial position during a period.

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19-3. True - Paragraph 7 of Opinion No. 19. The statement should be based on a broad concept. The Board recommends that the title be "Statement of Changes in Financial Position."

19-4. True - The resulting amount of working capital or cash should be appropriately described, such as, "Working capital provided from operations for the period, exclusive of extraordinary items." Paragraph 10.

19-5. False - Extraordinary income or loss should be adjusted for all items recognized.

19-6. True

19-7. False - Disclosure is necessary for conversions of long-term debt to common stock. Paragraph 14.

19-8. False - The Board recommends that they shouldn't be presented. If any per-share data relating to the flow of working capital or cash are presented, they should as a minimum include amounts for inflow from operations, inflow from other sources, and total outflow, and each per-share amount should be clearly identified with the corresponding total amount shown in the Statement.

APB OPINION #20

20-1. True

20-2. False - Income before extraordinary items and net income computed on a pro forma basis should be shown on the face of the income statements for all periods presented as if the newly adopted accounting principle had been applied during all periods affected.

20-3. True

20-4. True

APB OPINION #21

21-1. False - The discount or premium should be reported in the balance sheet as a direct deduction from or addition to the face amount of the note, and should not be classified as a deferred charge or deferred credit.

21-2. True

APB OPINION #22

22-1. True

22-2. False - Information about the accounting policies adopted and followed by not-for-profit entities should be presented as an integral part of their financial statements.

22-3. True

APB OPINION #23

23-1. True

23-2 True

23-3 True

23-4 False

23-5 False

23-6 False

24-1 True

24-2 False

APB OPINION NO. 25--

25-1. True

25-2. True

25-3. False

25-4. True

25-5. True

APB OPINION NO. 26--

26-1. True

26-2. False

APB OPINION NO. 27--

27-1. True

27-2. True

23-2 True

23-3 True

23-4 False

23-5 False

23-6 False

APB Opinion #24

24-1 True

24-2 False

APB OPINION NO. 25--ACCOUNTING FOR STOCK ISSUED TO EMPLOYEES

25-1. True

25-2. True

25-3. False

25-4. True

25-5. True

APB OPINION NO. 26--EARLY EXTINGUISHMENT OF DEBT

26-1. True

26-2. False

APB OPINION NO. 27--ACCOUNTING FOR LEASE TRANSACTIONS BY MANUFACTURER OF DEALER LESSORS

27-1. True

27-2. True