

1. award:  
10.00  
points

Popson Inc. incurred a material loss which was not unusual in character, but was clearly an infrequent occurrence. This loss should be reported as:

- An extraordinary loss.
- A separate line item between income from continuing operations and income from discontinued operations.
- A separate line item within income from continuing operations.
- A separate line item in the retained earnings statement.

Multiple Choice

Difficulty: Medium

Learning Objective: 04-01 Discuss the importance of income from continuing operations and describe its components.

2. award:  
10.00  
points

Freda's Florist reported the following before-tax income statement items for the year ended December 31, 2011:

Operating income	\$250,000
Extraordinary gain	\$ 70,000

All income statement items are subject to a 40% income tax rate. In its 2011 income statement, Freda's separately stated income tax expense and total income tax expense would be:

- \$128,000 and \$128,000, respectively.
- \$128,000 and \$100,000, respectively.
- \$100,000 and \$128,000, respectively.
- \$100,000 and \$100,000, respectively.

Multiple Choice

Difficulty: Hard

Learning Objective: 04-01 Discuss the importance of income from continuing operations and describe its components.

3. award:  
10.00  
points

The distinction between operating and nonoperating income relates to:

- Continuity of income.
- Principal activities of the reporting entity.
- Consistency of income stream.
- Reliability of measurements.

Multiple Choice

Difficulty: Medium

Learning Objective: 04-03 Discuss the components of operating and nonoperating income and their relationship to earnings quality.

On May 1, Foxtrot Co. agreed to sell the assets of its Footwear Division to Albanese Inc. for \$80 million. The sale was completed on December 31, 2011.

The following additional facts pertain to the transaction:

- The Footwear Division qualifies as a component of the entity according to GAAP regarding discontinued operations.
- The book value of Footwear's assets totaled \$48 million on the date of the sale.
- Footwear's operating income was a pre-tax loss of \$10 million in 2011.
- Foxtrot's income tax rate is 40%.

4. award:  
10.00  
points

In the 2011 income statement for Foxtrot Co., it would report:

- Income (loss) on its total operations for the year without separation.
- Income (loss) on its continuing operation only.
- Income (loss) from its continuing and discontinued operations separately.
- Income and gains separately from losses.

Multiple Choice

Difficulty: Medium

Learning Objective: 04-04 Define what constitutes discontinued operations and describe the appropriate income statement presentation for these transactions.

5. award:  
10.00  
points

Suppose that the Footwear Division's assets had not been sold by December 31, 2011, but were considered held for sale. Assume that the fair value of these assets at December 31 was \$40 million. In the 2011 income statement for Foxtrot Co., it would report a loss from discontinued operations of:

- \$3 million loss
- \$10 million loss
- \$10.8 million loss
- \$18 million loss

Multiple Choice

Difficulty: Hard

Learning Objective: 04-04 Define what constitutes discontinued operations and describe the appropriate income statement presentation for these transactions.

6. award: 10.00 points

An extraordinary event for financial reporting purposes is both:

- Unusual and material.
- Infrequent and significant.
- Material and infrequent.
- Unusual and infrequent.

Multiple Choice

Difficulty: Easy

Learning Objective: 04-05 Define extraordinary items and describe the appropriate income statement presentation for these transactions.

7. award: 10.00 points

Cal's Cookies reported 2011 before-tax income before extraordinary items of \$152,000 and a before-tax extraordinary loss of \$32,000. All tax items are subject to a 30% tax rate. In its 2011 income statement, Cal's would report the following amounts as separate line items for net income and income tax expense:

- \$120,000 and \$36,000.
- \$84,000 and \$45,600.
- \$84,000 and \$36,000.
- \$120,000 and \$45,600.

Multiple Choice

Difficulty: Hard

Learning Objective: 04-05 Define extraordinary items and describe the appropriate income statement presentation for these transactions.

8. award: 10.00 points

Cendant Corporation's results for the year ended December 31, 2011, include the following material items:

Sales revenue	\$6,200,000
Cost of goods sold	3,800,000
Selling and administrative expenses	1,300,000
Loss on sale of investments	200,000
Loss on discontinued operations	500,000
Loss from expropriation (unusual and infrequent event)	800,000
Restructuring costs	80,000
Overstatement of amortization expense in 2010 caused by mathematical error	60,000

Cendant Corporation's income from continuing operations before income taxes for 2011 is:

- \$900,000.
- \$880,000.
- \$820,000.
- \$320,000.

Multiple Choice

Learning Objective: 04-03 Discuss the components of operating and nonoperating income and their relationship to earnings quality.

Learning Objective: 04-05 Define extraordinary items and describe the appropriate income statement presentation for these transactions.

Difficulty: Hard

Learning Objective: 04-04 Define what constitutes discontinued operations and describe the appropriate income statement presentation for these transactions.

Learning Objective: 04-07 Explain the accounting treatments of changes in estimates and correction of errors.

9. award: 10.00 points

Which of the following is not true about EPS?

- It must be reported by all corporations whose stock is publicly traded.
- It must be reported separately for discontinued operations.
- It must be reported separately for extraordinary items.
- It must be reported on operating income.

Multiple Choice

Difficulty: Easy

Learning Objective: 04-08 Define earnings per share (EPS) and explain required disclosures of EPS for certain income statement components.

10. award:  
10.00  
points

Expenses in an income statement prepared under International Financial Reporting Standards:

- Must be classified by function.
- Must be classified by natural description.
- Can be classified either by function or by natural description.
- None of the above is correct.

Multiple Choice

Learning Objective: 04-01 Discuss the importance of income from continuing operations and describe its components.

Difficulty: Easy

Learning Objective: 04-12 Discuss the primary differences between U.S. GAAP and IFRS with respect to the income statement and statement of cash flows.

11. award:  
10.00  
points

Jacobsen Corporation prepares its financial statement applying U.S. GAAP. During its 2011 fiscal year, the company reported before-tax income of \$620,000. This amount does not include the following two items, both of which are considered to be material in amount:

Unusual and infrequent gain	\$200,000
Loss from discontinued operations	(300,000)

The company's income tax rate is 40%. In its 2011 income statement, Jacobsen would report income from continuing operations of:

- \$312,000.
- \$372,000.
- \$492,000.
- \$620,000.

Multiple Choice

Learning Objective: 04-04 Define what constitutes discontinued operations and describe the appropriate income statement presentation for these transactions.

Difficulty: Hard

Learning Objective: 04-05 Define extraordinary items and describe the appropriate income statement presentation for these transactions.