1. The full disclosure principle, as adopted by the accounting profession, is best described by which of the following?
   A. All information related to an entity’s business and operating objectives is required to be disclosed in the financial statements.
   B. Information about each account balance appearing in the financial statements is to be included in the notes to the financial statements.
   C. Enough information should be disclosed in the financial statements so a person wishing to invest in the stock of the company can make a profitable decision.
   D. Disclosure of any financial facts significant enough to influence the judgment of an informed reader.

3. The following information pertains to Reyes Corp. and its divisions for the year ended December 31, 2012.

| Sales to unaffiliated customers | $2,125,000 |
| Intersegment sales of products similar to those sold to unaffiliated customers | 1,250,000 |
| Interest earned on loans to other operating segments | 56,000 |

Reyes and all of its divisions are engaged solely in manufacturing operations. Reyes has a reportable segment if that segment’s revenue exceeds
   A. $212,500.
   B. $337,500.
   C. $343,100.
   D. $331,900.

11. Presented below are four segments that have been identified by Signal Productions:

<table>
<thead>
<tr>
<th>Segments</th>
<th>Total Revenue (Unaffiliated)</th>
<th>Operating Profit (Loss)</th>
<th>Identifiable Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>$510,000</td>
<td>$60,000</td>
<td>$1,800,000</td>
</tr>
<tr>
<td>B</td>
<td>1,200,000</td>
<td>(110,000)</td>
<td>1,600,000</td>
</tr>
<tr>
<td>C</td>
<td>450,000</td>
<td>8,000</td>
<td>900,000</td>
</tr>
<tr>
<td>D</td>
<td>180,000</td>
<td>12,000</td>
<td>450,000</td>
</tr>
</tbody>
</table>

For which of the segments would information have to be disclosed in accordance with professional pronouncements?
   A. Segments A, B, C, and D
   B. Segments A, B, and C
   C. Segments A and B
   D. Segments A and D

12. Basil Corp. has estimated that total depreciation expense for the year ending December 31, 2012 will amount to $880,000. In Basil’s interim income statement for the three months ended March 31, 2012, what is the total amount of expense relating to this item that should be reported?
   A. $0.
   B. $220,000.
   C. $440,000.
   D. $880,000.

17. Which of the following is not a reason for the increase in disclosure requirements?
   A. Accounting as a control and monitoring device.
   B. Complexity of the business environment.
   C. Full disclosure principle.
   D. Necessity for timely information.
18. Common notes to the financial statements include disclosures for all of the following except:
   A. credit claims.
   B. equity holders' claims.
   C. executive compensation.
   D. property, plant & equipment.

20. A subsequent event that would require adjustment of the financial statements is the:
   A. sale of bonds or capital stock.
   B. settlement of litigation when the event causing the claim took place after the balance sheet date.
   C. loss of plant or inventories from a flood.
   D. loss on an accounts receivable resulting from a customer's bankruptcy.

22. The FASB requires that a company report all of the following information except:
   A. segment assets.
   B. major customers.
   C. information about products and services.
   D. All of the options are reported.

23. Ruhlman Corp. has estimated that total depreciation expense for the year ending December 31, 2012 will amount to $1,280,000, total amortization expense for that period will be $420,000, and employee bonuses for the period will total $320,000. In Ruhlman's interim income statement for the six months ended June 30, 2012, what is the total amount of expense relating to this item that should be reported?
   A. $0.
   B. $505,000.
   C. $850,000.
   D. $2,020,000.

24. Extraordinary items that occur in interim reports are:
   A. prorated over the four quarters.
   B. omitted from the quarterly net income.
   C. disclosed only by note.
   D. absorbed entirely in the quarter in which they occur.

Additional Self-Study Questions

7. The full disclosure principle requires that all information about a company be disclosed in the financial statements.
   A. True
   B. False

8. The first note to the financial statements is usually a summary of changes in ownership interest.
   A. True
   B. False

9. A loan between a parent company and a subsidiary need not be disclosed since they belong to the same reporting entity.
   A. True
   B. False
10. A loss incurred from the settlement of litigation after the balance sheet date resulting from an event that occurred last year need only be disclosed in the notes to the financial statements.
   A. True
   B. False

12. Major disclosures include those for inventory, property, plant and equipment, and creditor claims.
   A. True
   B. False

13. To be deemed significant, an operating segment must have revenues that are 10% or more of the combined revenue of all operating segments and identifiable assets that are 10% or more of the combined assets of all operating segments.
   A. True
   B. False

14. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date the financial statements were issued but arise subsequent to that date.
   A. True
   B. False

18. Which of the following would not need to be disclosed for related party transactions?
   A. The nature of the relationship involved.
   B. A description of transactions to be incurred in the future.
   C. The dollar amount of the transactions incurred for each period included in the report.
   D. Amounts due to or from related parties as of the date of the balance sheet.

19. Which of the following subsequent events would require adjustment to the financial statements before they were issued?
   A. Settlement of litigation when the event giving rise to the claim occurred prior to the balance sheet date.
   B. Loss of plant assets from a fire.
   C. Business combination pending or effected.
   D. Losses on receivables resulting from conditions arising subsequent to the balance sheet date.

20. The FASB decided that the upper limit for the number of segments that a company should be required to disclose is:
   A. 12.
   B. 10.
   C. 8.
   D. None of these.

22. Which of the following is not required segmented information?
   A. Segment profit or loss.
   B. Segment assets.
   C. Major customers.
   D. Segment liabilities.
23. The Securities and Exchange Commission requires interim financial reports on:
   A. a quarterly basis.
   B. a semi-annual basis.
   C. a bi-monthly basis.
   D. a trimester basis.

26. Which of the following statements related to interim reporting is not correct?
   A. Inventory market declines should not be deferred beyond the interim period unless they are temporary.
   B. When LIFO inventories are liquidated at an interim date and are expected to be replaced by year-end, cost of goods sold should include the expected cost of replacing the liquidated LIFO base.
   C. Companies may use the gross profit method for annual inventory pricing, but disclosure of the method is required.
   D. Planned variances under a standard cost system ordinarily should be deferred.

SOLUTIONS

<table>
<thead>
<tr>
<th>Self-study</th>
<th>Additional self-study</th>
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</thead>
<tbody>
<tr>
<td>1. D</td>
<td>18. C</td>
</tr>
<tr>
<td>3. B</td>
<td>20. D</td>
</tr>
<tr>
<td>11. A</td>
<td>22. D</td>
</tr>
<tr>
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<td>23. D</td>
</tr>
<tr>
<td>17. C</td>
<td>24. D</td>
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<tr>
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<td>19. A</td>
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<td>22. D</td>
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<td>12. A</td>
<td>23. A</td>
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<td>14. B</td>
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