



GAAP: Balance Sheet Part 1

Course #2101A

Accounting

2 Credit Hours

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GAAP: BALANCE SHEET PART 1

This course covers a variety of issues related to GAAP with a focus on balance sheets. Much of the course is in a Question & Answer format.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

GAAP Q & A: Balance Sheet

Study the course materials from pages 1 to 52

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- To recall the accounting treatment for non-monetary exchanges
- To recognize the formula for measuring an impairment of real estate

NOTICE

This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.
- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.
- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2 CPE** hours.
- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.
- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

TABLE OF CONTENTS

SECTION 1. GAAP Q & A	1
Test Your Knowledge #1	25
Solutions and Suggested Responses #1	27
Test Your Knowledge #2	47
Solutions and Suggested Responses #2	49
Glossary	53
Index	55
Final Exam Copy	56

SECTION 1. GAAP Q & A

Objectives

After completing this section, you should be able to:

- Recall the accounting treatment for non-monetary exchanges.
- Recognize the formula for measuring an impairment of real estate.
- Identify the accounting for different types of investments such as securities, investments using the equity method, and partnerships.
- Recognize some of the disclosures required for trade receivables.
- Recognize how FIFO inventory is valued under the new inventory rules.
- Recall certain inventorable costs.
- Recall the GAAP rules to account for an intangible asset with a finite useful life.
- Identify the accounting for environmental contamination costs.
- Identify examples of costs associated with exit activities.
- Recognize how an entity should account for revenue when treated as an agent.
- Identify options to avoid having to maintain two depreciation schedules.
- Recall how to account for certain lease arrangements.
- Recognize how to account for certain transactions on the statement of cash flows.
- Identify examples of group concentrations.
- Recognize some of the results from the new net operating loss rules in tax reform.
- Identify the basic accounting for fresh start reporting.
- Identify how web development costs are accounted for during certain stages of development.
- Recognize when an entity may elect the fair value option and identify the eligible items for which the option is available.
- Recognize the basic rule for the liquidation basis of accounting.

INTRODUCTION

In 2009, the FASB completed its *Accounting Standards Codification*[™] (Codification) which was published in FASB No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles (FASB ASC 105)*. The Codification was effective for interim and annual periods ending after September 15, 2009.

With the Codification, the FASB had as its goal to consolidate U.S. GAAP into one system that can be more easily researched by topic, rather than by reference number. The Codification changes the citations for GAAP from the typical FASB or APB statement number to an Accounting Standards Codification (FASB ASC) reference. For example, FASB No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, has been codified into FASB ASC Topic 825, *Financial Instruments*.

In this course, the author has included the original U.S. GAAP reference (e.g., FASB No. 115) parenthetically along with the FASB ASC topic number under the Codification (e.g., FASB ASC

320). For abbreviation purposes, the author uses the terms ASC, FASB ASC and FASB ASC Topic, interchangeably.

I. BALANCE SHEET

A. COMPARATIVE STATEMENTS/INDIVIDUAL STATEMENTS

Question: Are both a balance sheet and an income statement (and also a statement of cash flows) required for all annual reports, and must all such statements be in comparative form for at least two years?

Response: ASC 205, *Presentation of Financial Statements*, recommends, but **does not require** comparative financial statements. However, the SEC requires comparative financial statements for publicly held companies.

Question: Is either statement alone a fair presentation? Does a balance sheet alone fairly present the financial position if the client incurred a material operating loss during the current year?

Response: With respect to presenting one financial statement, reference can be made to SAS No. 122, AU-C Section 805, *Special Considerations – Audits of Single Financial Statements and Specific Elements, or Items of a Financial Statement*.

1. AU-C 805 permits the auditor to report on a single financial statement, such as a balance sheet or income statement.

The auditor may be asked to report on one basic financial statement and not on the others. For example, he or she may be asked to report on the balance sheet and not on the statements of income, retained earnings or cash flows. These engagements do not involve scope limitations if the auditor's access to information underlying the basic financial statements is not limited and if he applies all the procedures he considers necessary in the circumstances.

Therefore, a separate balance sheet may fairly present financial position, and a separate statement of income may fairly present results of operations.

Question: When financial statements are presented, should the notes to financial statements disclose details for both periods?

Response: Generally, notes should relate to all periods presented, provided such information is relevant to both periods. In practice, many practitioners present certain disclosures comparatively (e.g., fixed assets, long-term debt), yet other disclosures for the current period only (e.g., short-term notes receivable and payable).

B. PROPERTY AND EQUIPMENT

1. Idle Property and Equipment

Question: What is the appropriate balance sheet classification and presentation of idle property and equipment? Should the property and equipment continue to be depreciated while idle?

Response: ASC 360, *Property, Plant and Equipment*, states that when a long-lived asset ceases to be used, the carrying amount of the asset should equal its salvage value, which should not be less than zero.

Accounting Research Study No. 7, *Inventory of Generally Accepted Accounting Principles for Business Enterprises*, provides further guidance by stating:

“Plant assets may include property held with reasonable expectation of it being used in the business. It is not customary to segregate or indicate the existence of temporarily idle plant, reserve, or standby equipment.

*Property abandoned but not physically retired or no longer adapted for use in the business, if material in amount, **should be removed from plant accounts and recorded separately at an estimated (net) realizable amount**, appropriately explained.*

*When a material portion of plant and equipment has been idle for a protracted period with no apparent likelihood of resuming operations, **the amount should be set forth separately** with an appropriate caption.*

*Depreciation should continue **only if the equipment is temporarily idle** and it is expected that operations will resume at some time.”*

2. Categorization of a Building

Question: A corporation purchased a building and intends to sell it within six months. Should it be accounted for as an investment or fixed asset? Should it be depreciated?

Response: ASC 360, *Property, Plant and Equipment*, states that GAAP requires that the cost of a productive facility be spread over its expected useful life. Because the building is not a productive facility, and no services will be derived from it, it should not be depreciated. Instead, it should be carried at the lower of cost or net realizable value (estimated selling price less selling costs) and categorized as a current asset since it will be converted into cash within six months.

3. Deposit on Machinery

Question: What is the balance sheet classification of a deposit on machinery to be purchased within one year?

Response: ASC 340, *Other Assets and Deferred Costs*, states that the concept of a current asset excludes any resources that are restricted as to withdrawal or use for other than current operations. Accordingly, the deposit should be presented as a long-term asset even though the equipment will be purchased within one year.