

 THEACCOUNTINGOASIS Interview Prep

1. What is the purpose of financial accounting?
2. What is the name of the commission in the U.S. that oversees the standard setting process?
3. Describe briefly the two suppliers of outside, private financial capital, and what they want in return for that capital.
4. What is the difference between public and private financial capital?
5. How do lenders try to protect themselves in the event that the firms to whom they have loaned capital are unable to pay interest and principal?
6. What is the definition of fraud?
7. Describe a major purpose of the Sarbanes Oxley Act of 2002.
8. What are the three main profit-seeking entities in the private sector?
9. What is the essential difference between public and private corporations?
10. What is the significance of the phrase "other people's money" in the context of corporations?
11. What do the initials IPO and SEO stand for?
12. What is a prospectus?
13. Describe three of the major filings that public firms regularly make with the SEC.
14. What is XBRL?

15. Who is currently the head of the Financial Accounting Standards Board?
 16. Who is currently the head of the International Accounting Standards Board?
 17. What do the initials PCAOB stand for, and what does this organization do?
 18. What is an Exposure Draft and what is its purpose?
 19. What is the fundamental equation of accounting, and how does it reflect a stewardship model of an organization?
 20. Name two deficiencies of the fundamental equation of accounting.
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21. What is the definition of gross profit or gross margin?
22. How does gross margin differ from the gross margin ratio?
23. What type of firm would exhibit large gross margins but small gross margin ratios?
24. How could lowering selling prices to increase sales be unwise for a firm?
25. What is the current tax rate on corporations in the U.S.?
26. Name the so-called "Big 4" accounting firms.
27. What is the name of the account in owners' equity that contains the cumulative amount of a firm's net income, less dividends?
28. What is one specific example of each of the three categories of cash flows on the cash flow statement?
29. Describe the main criteria for determining whether an expenditure should be capitalized or expensed.

30. State the main distinguishing difference between a revenue and a gain and between an expense and a loss.
 31. Why is it important for gains and losses to be distinguished from revenues and expenses?
 32. What is the purpose of classifying assets and liabilities into current and noncurrent categories?
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33. How is the cost of financial capital, both debt and equity, reflected in the financial statements?
 34. How is the cost of human capital reflected in the financial statements?
 35. Give an example of a recent IPO.
 36. What is underpricing of an IPO?
 37. Give an example of an IPO that was recently underpriced.
 38. Give an example of an IPO that was recently overpriced.
 39. How could a firm's earnings announcement that exceeds consensus expectations be considered bad news?
 40. When can prepaid expenses be classified as noncurrent assets, and what is an example?
 41. What's the purpose of mark-to-market accounting?
 42. What's the purpose of accrual accounting?
 43. Describe a recent fraud case.
 44. What is a firm's life cycle and why is it important to know?
 45. Is the MD&A audited?

46. Describe operating, investing, and financing cash flows over a firm's life cycle.
47. Give several manifestations of conservatism in financial accounting.
48. May revenue be recognized before the earnings process is completed?
49. What is the agency cost of debt?
50. Describe why debt financing is usually cheaper than equity financing.
51. Explain why firms do *not* use debt exclusively for their financial capital needs, even though it is usually cheaper than equity.
52. True or False: Stockholders typically want the firm to take risks whereas debtholders do not.
53. Define variable expenses and give an example of one.
54. What are the two main characteristics that financial information should exhibit?
55. Give an example of how the primary attributes of accounting information (relevance and reliability) are in tension.
56. Give a reason why the FASB requires firms to use the accrual system, as well as the fair value system.
57. What are pro forma financial statements, and what purpose do they serve?
58. In the context of leverage, explain how a 10% increase in revenues can result in a more than 10% increase in net income.
59. Name two forms of equity compensation and how they align the interests of the managers with the interests of the stockholders (owners).
60. Describe a negative unintended consequence of stock option compensation.

61. What is the audit profession's role with respect to reliability of financial information?
 62. How does the Conservatism Principle affect accounting for R&D expense and for contingencies?
 63. Give an example of a contingent loss.
 64. How does the fair value system contradict the Conservatism Principle?
 65. Name two contra accounts and give their respective purposes.
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66. What are the components of EBIT?
 67. What ratio(s) would be used to measure a firm's capital structure?
 68. Why is capital structure an important construct in assessing a firm?
 69. Provide the names and the *general* formulas for the two EPS ratios.
 70. What is pro forma EPS and why is it sometimes used?
 71. Which do you believe is more important, and why: Basic EPS or Diluted EPS?
 72. Research analysts and firms themselves often talk about "the line" on the income statement. What is it?
 73. Why do some firms and some analysts remove nonrecurring losses from their income statements?
 74. What are the main purposes for the subtotal of EBIT on the income statement?
 75. What is another name for EBIT?

76. What are the three main margin ratios calculated from data on the income statement?
77. What are the denominators for “common sizing” the balance sheet and the income statement?
78. What is the purpose of common size financial statements?
79. What are the names of the two major tax rates?
80. How do firms sometimes attempt to lower their effective tax rates?
81. Critique the use of ROE as a measure of management effectiveness.
82. What is the difference between the quick ratio and the current ratio?
83. Interpret the meaning of a positive Cash Conversion Cycle of 75 days.
84. Why is the market-to-book ratio often above 1?
85. Describe briefly (and generally) the meaning of Free Cash Flow to Equity (FCFE).
86. How is Free Cash Flow to Equity actually returned to stockholders?
87. Why do high growth firms not usually return free cash flow to stockholders?
88. What is the difference between the Dividend Payout Ratio and the Dividend Yield?
89. What is a warning about interpreting Total Returns to Shareholders (TRS)?
90. How do potential investors compensate for perceived additional risk associated with an investment?
91. Why is it deemed more difficult to measure the cost of equity compared to the cost of debt?

92. Describe beta in the context of measuring a firm's cost of equity.
 93. Interpret a beta of 2. Interpret a beta of 0.5.
 94. What is WACC for a firm with \$10 of debt and \$50 of equity, where the after tax cost of debt is 4% and the cost of equity is 10%?
 95. What is the formula for the "DuPont Model"?
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96. What is the main risk associated with accounts receivable?
97. How is credit risk measured and disclosed in all three financial statements?
98. Describe Big Bath Accounting and how it can be considered illegal.
99. Describe two ways in which a firm can use receivables to accelerate cash flow.
100. What was the main reason that the accounting for securitizations changed from sales to financings for most situations?
101. Why was sales accounting so popular with firms who engaged in securitizations?
102. What are the three main inventories for a manufacturer?
103. Why is it important for manufacturers to disclose the amounts of materials, work-in-process, and finished goods?
104. Explain when depreciation is capitalized, rather than expensed.
105. What is the purpose of the LIFO Allowance?
106. What special disclosures are required when a LIFO liquidation occurs?
107. Explain how the "inventory fraud" works.

108. When prices for inventories rise over a period, which inventory costing method should a firm use to reduce taxes?

109. Give several reasons why one firm would buy the equity of another.

110. Give examples of indefinite lived intangibles. What is the accounting treatment of indefinite lived intangibles?

111. What is an impairment? How is it measured? What items in the balance sheet are tested for impairment?

112. Why is goodwill an asset?

113. When is depreciation capitalized? When is interest capitalized?

114. What is the difference between impairing an asset and marking-to-market an asset?

115. What is a franchise, and how is it disclosed on a firm's balance sheet?

116. What are the three levels of ownership of equity securities?

117. What are the two categories of passive level of ownership for fair value accounting?

118. Compare and contrast the two accounting treatments for the two categories of passive level of ownership.

119. What does AOCI stand for?

120. What is the name of the accounting method that is used when the level of ownership rises to significant influence?

121. When is the receipt of a dividend *not* considered investment income?

122. At what level of ownership does one firm consolidate its investment in another firm?

123. What does NCI stand for?
124. What are the three categories of investment in debt, rather than stock?
125. What is the main attribute of an intangible asset that is used to determine whether or not it will be amortized?
126. Under what circumstances is interest capitalized, rather than expensed?
127. Depreciation shows up in all three main financial statements. Where exactly? And why?
128. What is the main attribute of a repair that determines whether or not it will be capitalized or expensed?
129. Is it true that all long term assets are either depreciated or amortized?
130. Are fixed assets, such as buildings and equipment, ever marked-to-market?
131. What is the difference between "manufacturing overhead" and "operating overhead"?
132. Why do firms sometimes choose accelerated depreciation over straight line depreciation?
133. What is the formula for straight-line depreciation?
134. What is the formula for double declining balance depreciation?
135. Does depreciation matter? If so, for what purposes?
136. Does the depreciation *method* that a firm uses matter?
137. What is an impairment loss?
138. What are restructuring expenses?

139. What is a “cookie jar” reserve?
 140. Describe how equipment could become impaired for accounting purposes.
 141. Why is it important for firms to segregate discontinued operations on all three financial statements?
 142. Describe how discontinued operations affect the three main financial statements.
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143. Define present value.
144. Define interest.
145. Define compound interest.
146. Define annuity.
147. Define an amortizing loan.
148. Define an accreting loan.
149. Define an interest only loan.
150. What does CAGR stand for and when is it used?
151. What are the names of the two parties in a lease contract?
152. What are the four main criteria for a capital lease?
153. What are the arguments for and against capitalizing operating leases?
154. What are alternative terms synonymous with “market rate” of interest on a bond?

155. What are alternative terms synonymous with “stated rate” of interest on a bond?
 156. What are alternative terms synonymous with a bond's “par value”?
 157. Under what circumstances are bonds issued at a discount? At a premium? At par?
 158. Are firms allowed to apply fair value accounting to their own debt?
 159. Name two preferences that preferred stock has over common stock.
 160. Name two reasons why a firm would buy back its own stock.
 161. What does APIC stand for? Give an example of when the account is used.
 162. How many changes in the retained earnings account can you name?
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163. What does the phrase “at-the-money” mean with regard to stock options?
 164. Define a stock option's “intrinsic value.”
 165. What are two reasons why stock options usually have zero intrinsic value to their recipients when they are granted?
 166. How was the problem of assigning an *ex ante* stock option value, for purposes of measuring compensation expense, resolved, since the intrinsic value of the stock option is zero (on the grant date)?
 167. How is the value of compensation expense determined for restricted stock?
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168. What is a major purpose of the cash flow statement?
169. How are cash interest payments classified on the cash flow statement under U.S. GAAP? Under IFRS?
170. Why are firms required to give accrual-based statements (income statements and balance sheets), as well as cash flow statements?
171. Name three specific examples of cash flows for each category of cash (operating, investing, and financing).
172. Name the cash flow categories (operating, investing, or financing) associated with each of these: Bonds Payable; Property, Plant, and Equipment; Stock and APIC; Long term Investments; Accounts Payable; Intangibles; Deferred Revenue; Short term and Long term Debt ; Accounts Receivable.
173. What is the formula for calculating operating cash flows using the indirect method?
174. Why are gains subtracted and losses added to net income using the indirect method?
175. Why are increases in PP&E assumed to be cash *outflows*?
176. Why are increases in notes payable assumed to be cash *inflows*?
177. Why are increases in stock and APIC assumed to be cash inflows?
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178. What are the names of the two major tax rates?
179. How can a firm lower its effective tax rate?
180. Does tax depreciation usually result in a deferred tax liability or a deferred tax asset? Why?
181. Define permanent differences between the income statement and tax return, and describe the effects of permanent differences.

182. Define temporary differences between the income statement and tax returns, and describe the effects of temporary differences.
 183. Give an example of a permanent difference that makes the effective tax rate lower than the statutory tax rate.
 184. Give an example of a permanent difference that makes the effective tax rate higher than the statutory tax rate.
 185. Give an example of a temporary difference that gives rise to a deferred tax asset.
 186. Give an example of a temporary difference that gives rise to a deferred tax liability.
 187. Describe how a deferred tax liability that arises from differences between depreciation on the income statement and on the tax return could theoretically never be paid.
 188. Why are deferred tax assets and liabilities not recorded on the balance sheet at their respective present values?
 189. Describe how net operating losses give rise to deferred tax assets.
 190. What is a deferred tax asset valuation allowance, and when is it used?
 191. What is the effective tax rate for a firm with pre-tax income of \$150 and tax expense of \$40?
 192. Does tax free municipal bond interest will result in a firm's effective tax rate being higher or lower than the statutory tax rate?
 193. Are deferred tax liabilities interest free loans from the government?
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194. Describe the two main types of pension plans.
 195. Name the three main accounts related to a defined benefit plan.

196. What is the definition of "funded status" for a defined benefit pension plan?

197. What does ERISA stand for? Name one of its main provisions.

198. Describe why an imbalance usually occurs *on the balance sheet* during the translation process.

199. Describe why an articulation problem occurs *on the cash flow statement* during the translation process.

200. Give the breakdown of factors affecting the translation of a foreign subsidiary's revenues.

201. Why are deferred tax liabilities non-interest bearing?

202. Name three major differences between U.S. GAAP and IFRS and why they are important.

203. What is the status of the conversion/convergence efforts?