Multiple Choice

1. A conceptual framework
a. is mandated by all international standard-setters.
b. has no role in accounting, since standards have the highest authority.
c. is a coherent system of concepts that flow from an objective.
d. likely does not increase financial statement users' understanding of and confidence in financial reporting.

Ans: C –A conceptual framework establishes the concepts that underlie financial reporting. A conceptual framework is a coherent system of concepts that flow from an objective, LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

2. A conceptual framework is necessary for which of the following reasons?
a. It allows the profession to quickly solve new and emerging issues.
b. It enables standard setters to issue more useful and consistent pronouncements over time.
c. It increases financial statement users' understanding of and confidence in financial reporting.
d. All of these answer choices are correct.

Ans: D –The conceptual framework allows the profession to quickly solve new and emerging issues and to issue more useful consistent standards. It also increases financial statement users' understanding of and confidence in financial reporting., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

3. The conceptual framework for financial reporting consists of how many levels?
a. 1
b. 2
c. 3
d. 4

Ans: C –There are 3 levels: 1) the Objective; 2) the "Why", or Bridge between levels 1 & 3, and 3), the "How"., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

4. Which of the following statements is true regarding the conceptual framework convergence project by the FASB and IASB?
a. The Boards continue to work together to arrive at a converged framework.
b. The existing conceptual frameworks underlying U.S. GAAP and IFRS are quite dissimilar, but once they are converged there will be unanimity.
c. The Boards have converged on two subjects.
d. The FASB framework has no discussion of fair value.

Ans: C – The IASB and the FASB originally planned to develop a common conceptual framework. The Boards converged on two subjects: Objectives of Financial Reporting and Qualitative Characteristics of Accounting Information., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

5. The underlying theme of the conceptual framework is
a. decision usefulness.
b. understandability.
c. reliability.
d. comparability.

Ans: A – Decision usefulness is the underlying theme of the conceptual framework., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

6. Which of the following is **not** among the ingredients of the fundamental quality of faithful representation?
a. freedom from error
b. neutrality
c. materiality
d. completeness

Ans: C –The ingredients of faithful representation include completeness, neutrality, and freedom from error., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

7. Enhancing qualities of accounting information include
a. comparability and verifiability.
b. relevance and consistency.
c. comparability and materiality.
d. relevance and faithful representation.

Ans: A – The enhancing qualities of accounting information include comparability, verifiability, timeliness, and understandability., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

8. Enhancing qualities of accounting information include all of the following **except**
a. comparability.
b. understandability.
c. neutrality.
d. timeliness.

Ans: C – The enhancing qualities of accounting information include comparability, verifiability, timeliness, and understandability., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

9. In order to be relevant, financial information must have
a. freedom from error.
b. neutrality.
c. comparability.
d. confirmatory or predictive value.

Ans: D – Relevant information has predictive value or confirmatory value (or both), and is material., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

10. Companies and their auditors have adopted a general rule of thumb that anything under _____ of net income is considered not material.
a. 10%
b. 15%
c. 5%
d. 2%

Ans: C – Anything under 5% of net income is generally considered not material., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, Measurement, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

11. The residual interest in the assets of the entity after deducting all its liabilities are called
a. assets.
b. a revenue.
c. expenses.
d. equity.

Ans: D – Equity is defined as the residual interest in the assets of the entity after deducting all its liabilities., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

12. Which of the following elements of financial statements describes the amount of resources less the amount of claims to resources at a moment in time?
a. Expenses
b. Revenues
c. Equity
d. Cash flow

Ans: C – The elements that describe resources and claims to resources at a moment in time include assets, liabilities, and equity. The other elements (income and expenses) describe transactions, events and circumstances that affect a company during a period of time., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

13. Under current IFRS, inflation is ignored in accounting due to
a. materiality.
b. the going concern assumption.
c. the monetary unit assumption.
d. consistency.

Ans: C – Inflation is ignored under the monetary unit assumption., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

14. Depreciation and amortization policies are justifiable and appropriate because of the
a. economic entity assumption.
b. going concern assumption.
c. monetary unit assumption.
d. periodicity assumption.

Ans: B – The going concern assumption is the justification for depreciation and amortization., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

15. Preparation of consolidated financial statements when a parent-subsidiary relationship exists is an example of the
a. economic entity assumption.
b. relevance characteristic.
c. comparability characteristic.
d. neutrality characteristic.

Ans: A – The economic entity assumption implies that the economic activities of an enterprise can be identified with a particular unit of accountability., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

16. Generally, revenues are recognized when the
a. cash is received.
b. performance obligation is satisfied.
c. product is produced.
d. All of these answer choices are correct.

Ans: B – When a company satisfies the performance obligation to perform services or sell a product, revenue is recognized., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

17. Which of the following statements about the fair value principle is true?
a. Fair value is a market-based measure.
b. Fair value is generally less relevant than historical cost.
c. Measurements based on fair value increase the objectivity in financial reporting.
d. IFRS requires the use of fair value for financial assets and financial liabilities.

Ans: A – Fair value is more relevant, more subjective, and IFRS gives companies the option of using fair value for financial assets and financial liabilities., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

18. In 2010, the FASB and IASB completed the first phase of jointly created conceptual framework and in this phase they agreed on
a. the elements of financial statements.
b. the objective of financial reporting.
c. the constraints of financial reporting.
d. All of these answer choices are correct.

Ans: B – In 2010, the FASB and IASB completed the first phase of a jointly created conceptual framework and in this phase they agreed on the objective of financial reporting and a common set of desired qualitative characteristics., LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

19. Under IFRS
a. companies may apply fair value to natural resources.
b. the monetary unit assumption is used, however since every country has its own currency the unit of measure will vary depending on the country in which the company is incorporated.
c. the existing conceptual framework is very similar to the conceptual framework under GAAP.
d. All of these answer choices are correct.

Ans: D – Under IFRS companies may apply fair value to natural resources and the monetary unit assumption is still used (although the unit of measure will vary depending on the currency used in the country in which the company is incorporated). The existing conceptual frameworks under IFRS and GAAP are very similar., LO: 4 Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

20. The income statement can be used to assess
a. liquidity.
b. solvency.
c. creditworthiness.
d. All of these answer choices are correct.

Ans: C – The business and investment community uses the income statement to determine profitability, investment value, and creditworthiness., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

21. ________ approach focuses on the income-related activities that have occurred during the period.
a. transaction
b. capital maintenance
c. earnings quality
d. classification

Ans: A – The transaction approach focuses on the income-related activities that have occurred during the period. These activities include revenue and expense transactions, and gain and loss transactions., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

22. Which of the following occur from peripheral or incidental transactions?
a. Sales revenue
b. Cost of goods sold
c. Gain on the sale of equipment
d. Operating expenses

Ans: C – Gains and losses result from peripheral or incidental transactions., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

23. Jackson, Inc. has the following information is available:

Cost of goods sold	$148,500
Dividend revenue	3,750
Income tax expense	3,000
Operating expenses	79,500
Sales	255,000

In Jackson's multiple-step income statement, gross profit
a. will not be reported.
b. will be reported at $24,000.
c. will be reported at $27,000.
d. will be reported at $106,500.

Ans: D – Gross profit = sales – cost of goods sold. $255,000 − $248,500 = $106,500, LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

24. How should gains and losses be reported in the financial statements?
a. Shown as a separate item after income from operations before income taxes, if material, and supplemented by a footnote if deemed appropriate.
b. Shown in operating revenues or expenses if material with disclosure.
c. Shown net of income tax after ordinary net earnings, but before discontinued operations.
d. Shown net of income tax after discontinued operations but before net earnings.

Ans: B – Most companies report these items as part of operations and disclose them in great detail if material in amount., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

25. Which of the following is **not** considered a gain or loss on the income statement?
a. Income tax expense
b. Write-down of inventories
c. Litigation settlements
d. Effects on income of condemnation of property

Ans: A – Income tax expense is a regular item on the income statement., LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

26. Noncontrolling interest is
a. not shown on the face of the income statement.
b. reported as a separate item below net income or loss.
c. shown in a separate section of the income statement after continuing operations but before discontinued operations, net of tax.
d. shown in a separate section of the income statement after discontinued operations, net of tax.

Ans: B – Noncontrolling interest is reported as a separate item below net income or loss as an allocation of the net income or loss (that is, it is not an item of income or expense)., LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

27. Companies are required to highlight certain items in the financial statements so that users can better determine the long-run earning power of the company. Which of the following is **not** one of those items?
a. Unusual gains and losses
b. Noncontrolling interest
c. Changes in accounting principle
d. Discontinued operations

Ans: C – A change in accounting principle is recognized by making a retrospective adjustment to the financial statements. The items companies are required to highlight include unusual and infrequent gains and losses, discontinued operations, and noncontrolling interest., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

28. Barger Enterprises has an unusual loss of $300,000, an infrequent gain of $700,000, and a tax rate of 30%. At what amount should Barger report each item?

	Unusual Loss	**Unusual Gain**
1.	$(300,000)	$700,000
2.	(300,000)	490,000
3.	(210,000)	700,000
4.	(210,000)	490,000

a. 1
b. 2
c. 3
d. 4

Ans: A – Both the gain and the loss should be reported in income before income taxes, at their gross amounts., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

29. The occurrence which most likely would have **no** effect on 2022 net income (assuming that all amounts involved are material) is the
a. sale in 2022 of an office building contributed by a shareholder in 2016.
b. collection in 2022 of a receivable from a customer whose account was written off in 2021 by a charge to the allowance account.
c. settlement based on litigation in 2022 of previously unrecognized damages from a serious accident which occurred in 2021.
d. worthlessness determined in 2022 of shares purchased on a speculative basis in 2022.

Ans: B – The collection of a written off account would not affect net income., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

30. Clair, Inc. reports net income of $700,000. It declares and pays dividends of $100,000 for the year, one-half of which relate to the preferred shares. The weighted average number of ordinary shares outstanding during the year is 200,000 shares, and the weighted average number of preferred shares outstanding during the year is 10,000 shares. Rounded to the nearest cent, earnings per share for Clair, Inc. is
a. $3.18.
b. $3.25.
c. $3.00.
d. $2.95.

Ans: B – Net income minus preferred dividends is divided by the weighted average of ordinary shares outstanding to compute earnings per share., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

31. Earnings per share is computed as net income
a. divided by the weighted average of ordinary shares outstanding.
b. minus preferred dividends divided by the weighted average of ordinary shares outstanding.
c. divided by the ending ordinary shares outstanding.
d. minus preferred dividends divided by the ending ordinary shares outstanding.

Ans: B – Net income minus preferred dividends is divided by the weighted average of ordinary shares outstanding to compute earnings per share., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

32. A change in the method of inventory pricing from FIFO to weighted average will be accounted for as a (an)
a. part of discontinued operations.
b. part of gross profit.
c. change in accounting principle.
d. change in estimate.

Ans: C – Changes in accounting principle include a change in the method of inventory costing., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

33. Sawyer, Inc. consistently estimated its bad debt expense at 1 percent of accounts receivable. In 2022, however, Sawyer determines that it must revise upward the estimate of bad debts for the current year's receivables to 2 percent or double the prior years' percentage. Sawyer uses the revised estimate of 2% and calculates bad debt expense of $500,000 at December 31, 2022. How is the change in the estimated bad debt expense reported in Sawyer's 2022 financial statements?

a. $250,000 of expense in the income statement as an operating item, $250,000 of unusual expense (net of tax)
b. $250,000 of expense in the income statement as an operating item, $250,000 of expense reported as an adjustment to the beginning balance of retained earnings (net of tax)
c. $500,000 of expense reported as a change in accounting principle and accounted for under the retrospective approach
d. $500,000 of expense in the income statement as an operating item

Ans: D –Sawyer accounts for this change in estimate in the period of change by reporting the newly calculated amount of bad debt expense as an operating item of income. Changes in estimate are not considered an unusual and infrequent item, an error correction, or a change in accounting principle., LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

34. Prior period adjustments are reported as an

a. unusual item in the income statement.
b. addition to (or deduction from) net income in the income statement.
c. addition to (or a deduction from) the beginning balance of retained earnings.
d. addition to (or deduction from) the ending balance of retained earnings.

Ans: C – Prior period adjustments are added to (or deducted from) the beginning retained earnings balance., LO: 4, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

35. The statement of changes in equity

a. need not be presented if a company is reporting comprehensive income using the two statement approach.
b. is dated using "As of December 31, 2022".
c. reports the change in each shareholders' equity account and in total equity for the period.
d. All of these answer choices are correct.

Ans: C – Companies present a statement of changes in equity regardless of the format used to report comprehensive income and the statement is dated "For the period ending December 31, 2022". The statement of changes in equity reports the change in each equity account and in total equity for the period., LO: 5, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

36. When a company transfers an amount of restricted retained earnings into a different account, that account is titled
a. Appropriated Retained Earnings.
b. Unappropriated Retained Earnings.
c. Noncontrolling Retained Earnings.
d. Comprehensive Retained Earnings.

Ans: A – When a company transfers an amount of restricted retained earnings into a different account, that account is titled Appropriated Retained Earnings., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

37. Gains and losses that bypass net income, but affect shareholders' equity are referred to as
a. comprehensive income.
b. other comprehensive income.
c. prior period income.
d. unusual gains and losses.

Ans: B – Other comprehensive income includes gains and losses that bypass net income., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

38. Josie Corporation reported the following information for 2022.

Sales revenue	$1,000,000
Cost of goods sold	700,000
Operating expenses	110,000
Unrealized holding gain on available-for-sale securities	40,000
Cash dividends received on the securities	4,000

For 2022, Josie would report comprehensive income of
a. $234,000.
b. $230,000.
c. $194,000.
d. $40,000.

Ans: A –$1,000,000 less $700,000 less $110,000 plus $40,000 plus $4,000 equals $234,000., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

39. Which of the following statement is **incorrect**?
a. Extraordinary items are prohibited under U.S. GAAP.
b. U.S. GAAP identifies certain minimum items that should be presented on the income statement. IFRS has no minimum information requirements.
c. Compared to U.S. GAAP, the application of IFRS results in more transactions affecting equity but not net income.
d. Both GAAP and IFRS require companies to report the amount of net income attributable to noncontrolling interest.

Ans: B – IFRS identifies certain minimum items that should be presented on the income statement., LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

40. Which of the following has an impact on the dollar amount of the interest related to any financing transaction?
a. Principal
b. Interest rate
c. Time
d. All of these answer choices are correct.

Ans: D – Principal, interest rate, and time impact interest., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

41. Accounting topics where present value-based accounting measurements are relevant include
a. taxes.
b. inventory.
c. environmental liabilities.
d. All of these answer choices are correct.

Ans: C –Present value concepts are applied to a wide variety of accounting measurements including environmental liabilities. However, taxes and inventory do not require the use of present value concepts., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

42. Willy Thiel invests €50,000 at 10% annual interest. How much money has accumulated after five years, assuming simple interest?
a. €25,000
b. €55,000
c. €75,000
d. €80,526

Ans: C –Simple interest is [€50,000 + (€50,000 × 0.10 × 5)] = €75,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

43. Which table would you use to determine how much you will have five years from now if you deposit $10,000 today at 8% compounded annually?
a. Future value of 1 or present value of 1
b. Future value of an annuity due of 1
c. Future value of an ordinary annuity of 1
d. Present value of an ordinary annuity of 1

Ans: A – Use the future value of 1 or present value of 1., LO: 1, 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

44. For an investment that earns 1% compounded monthly for two years, how many compounding periods are there?
1. 2
2. 8
3. 12
4. 24

Ans: D – The total number of compounding periods is equal to the number of compounding periods per year times the number of years (12 × 2 = 24)., LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

45. Which of the following is **not** a variable that is a part of all compound interest problems?
1. Future value
2. Interest rate
3. Present value
4. Past value

Ans: D –Past value is not a variable that is part of every compound interest problem., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

46. Zach's uncle has promised him $20,000 when he graduates college 4 years from now. What is the equivalent amount stated in today's dollars? Given below are the present value factors for 1 at 8% for one to three periods with interest compounded annually.

Periods	**Present Value of 1 at 8%**
1	0.92593
2	0.85734
3	0.79383

a. $20,000 × 0.92593 × 0.79383
b. $20,000 × 0.1.080 × 0.79383
c. $20,000 ÷ 0.79383 ÷ 1.08
d. $20,000 × 0.79383 × 1.08

Ans: A – Multiply the 3-year factor by the 1-year factor by the future value: 0.92593 × 0,79383 × $20,000 to determine the present value for 4 years of $14,701., LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

47. The process of accumulation involves determining
a. future value.
b. present value.
c. future value or present value.
d. the number of time periods.

Ans: A - Accumulation involves determining the future value of amounts., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

48. Future value is
a. the value now of a future amount.
b. the amount that must be invested now to produce a known future value.
c. always greater than the present value.
d. All of these answer choices are correct.

Ans: C - The future value is always greater than the present value due to the interest that accumulates over time. The value now of a future amount is referred to as the present value; and, the amount that must be invested now to produce a known future value also refers to the present value., LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

49. Marshall wants to invest a certain sum of money at the end of each year for six years. The investment will earn 6% compounded annually. At the end of six years, he will need a total of €500,000 accumulated. How should he compute the required annual investment?
a. €500,000 times the future value of a 6-year, 6% ordinary annuity of 1 factor
b. €500,000 divided by the future value of a 6-year, 6% ordinary annuity of 1 factor
c. €500,000 times the present value of a 6-year, 6% ordinary annuity of 1 factor
d. €500,000 divided by the present value of a 6-year, 6% ordinary annuity of 1 factor

Ans: B - Marshall would divide €500,000 by the future value of a 6-year, 6% ordinary annuity of 1 factor., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

50. Which of the following is true?
a. Rents occur at the beginning of each period in an ordinary annuity.
b. Rents occur at the end of each period in an annuity due.
c. Rents occur at the beginning of each period in annuity due.
d. Rents occur in the middle of each period in an ordinary annuity.

Ans: C - Rents occur at the beginning of each period in an annuity due., LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

51. The future value of an ordinary annuity will always be
a. equal to the future value of an annuity due.
b. greater than the future value of annuity due.
c. greater than or equal to the future value of an annuity due.
d. less than the future value of annuity due.

Ans: D - The future value of an annuity due is always greater than the future value of an ordinary annuity because one extra period if interest is added., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

52. Which of the following statements related to an annuity is correct?
a. The periodic payments must always be the same amount.
b. The interval between payments need not be the same.
c. The interest must be compounded annually.
d. An annuity can be classified as an ordinary annuity or an unordinary annuity.

Ans: A - An annuity must have equal periodic payments and equal intervals between payments. An annuity can be classified as an ordinary annuity or an annuity due. Compounding can be annually or for periods less than a year., LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

53. Amy has saved €250,000 for her retirement. It is invested in an annuity that pays 12%. Amy wishes to make equal semi-annual withdrawals over the next 10 years, beginning 6 months from now. How much can she withdraw each period?

	Time Periods	**Factor**
PV Annuity due 12%	10	6.32825
PV Annuity due 6%	20	12.15812
PV Ordinary annuity 12%	10	5.65022
PV Ordinary annuity 6%	20	11.46992

a. €39,505
b. €20,562
c. €44,246
d. €21,796

Ans: D – Divide the retirement amount saved by the present value of an ordinary annuity factor of 6% for 20 periods (10 years, 2 compounding periods per year): €250,000 ÷ 11.46992 = €21,796., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2 AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

54. Drake plc makes an investment today (January 1, 2022). Drake will receive £40,000 every December 31 for the next six years (2022 through 2027). If Drake wants to earn 12% on the investment, what is the most Drake should invest on January 1, 2022?

	Time Periods	**Factor**
PV Annuity due	5	4.03735
PV Annuity due	6	4.60478
PV Ordinary annuity	5	3.60478
PV Ordinary annuity	6	4.11141

a. £164,456
b. £144,191
c. £184,191
d. £161,494

Ans: A – Multiply the present value of an ordinary annuity factor for 6 periods by the annual £40,000 receipt: 4.11141 × £40,000 = £164,456., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

55. On January 1, 2022, Fielder Company sold to Flay Corporation $400,000 of its 10% bonds for $354,118 to yield 12%. Interest is payable semiannually on January 1 and July 1. What amount should Fielder report as interest expense for the six months ended December 31, 2022? (The effective-interest method of amortization is being used).

a. $21,322
b. $17,768
c. $21,247
d. $24,000

Ans: A - The interest expense for the first 6-month period is $354,118 × 12% × (6/12) equals $21,247. Discount amortization for the first period is $1,247 which is added to $354,118 to equal the new book value of $355,365, which is multiplied by 12% × (6/12)., LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

56. Which of the following is **false**?

a. The future value of a deferred annuity is computed using 1 more compounding period than the future value of an annuity not deferred.
b. A deferred annuity is an annuity in which the rents begin after a specified number of periods.
c. To compute the present value of a deferred annuity, we compute the present value of an ordinary annuity of 1 for the entire period and subtract the present value of the rents which were not received during the deferral period.
d. If the first rent is received at the end of the sixth period, it means the ordinary annuity is deferred for five periods.

Ans: A - The false statement is “The future value of a deferred annuity is computed using 1 more compounding period than the future value of an annuity not deferred.”, LO: 5, Bloom: AN, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

57. Which of the following statements regarding a deferred annuity is correct?

a. A deferred annuity does not begin to produce rents until three or more periods have expired.
b. A deferred annuity can only be an ordinary annuity.
c. The future value of a deferred annuity includes interest accumulated during the deferral period.
d. The future value of a deferred annuity is the same as the future value of an annuity not deferred.

Ans: D - Because there is no accumulation or investment on which interest may accrue, the future value of a deferred annuity is the same as the future value of an annuity not deferred., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

58. When using the expected cash flow approach, which of the following interest rates is used to discount the cash flows?

a. The pure rate of interest
b. The expected inflation rate of interest
c. The credit risk rate of interest
d. The risk-free rate of return

Ans: D - IFRS takes the position that after computing the expected cash flows, a company should discount those cash flows by the risk-free rate of return., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

59. Jamie wants to set aside enough money now to go on vacation in two years. She has developed the following estimates:

Estimated Cash Outflows	**Possibility Assessment**
€2,700	30%
€3,300	50%
€4,500	20%

	Time Periods	**Factor**
PV of 1	2	0.90703
PV Annuity of 1	2	1.85941
FV of 1	2	1.10250
FV Ordinary Annuity	2	2.05000

How much should she deposit today in an account earning 5%, compounded annually, to have sufficient cash on hand to pay for the vacation?

a. €3,048
b. €3,704
c. €3,360
d. €6,248

Ans: A - Expected cash outflow is [(€2,700 x 30%) + (€3,300 x 50%) + (€4,500 x 20%)] = €3,360, The present value of €3,360 is €3,360 × 0.90703 = €3,048., LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Business Operations

Multiple Choice

60. Cash consists of all of the following except
a. personal checks.
b. certified checks.
c. money orders.
d. short-term paper with a maturity of 6 months.

Ans: D - Cash consists of coin, currency, and available funds on deposit at the bank. All of the options are considered cash except short-term paper with a maturity of 6 months which is classified as a temporary investment., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: Measurement, IMA: Reporting

61. All of the following are properly classified as temporary investments except
a. money market funds (no checking privileges).
b. money market certificates.
c. money orders.
d. certificates of deposit (CDs).

Ans: C – Items appropriately classified as temporary investments include money market funds, money market savings certificates, and certificates of deposit (CDs). Negotiable instruments such as money orders are viewed as cash., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

62. Short-term paper with maturities of less than 3 months should be classified as
a. cash equivalents.
b. investments.
c. temporary investments.
d. receivables.

Ans: A - Short-term paper with maturities of less than 3 months should be classified as cash equivalents. Cash equivalents are short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) subject to an insignificant risk of changes in value, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

63. If the IASB eliminates the cash equivalent classification, a treasury bill will be classified as
a. cash.
b. an investment.
c. a receivable.
d. a short-term investment.

Ans: D - Treasury bills are highly liquid government issued obligations, and are classified as short-term investments., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

64. Non-trade receivables include all of the following except
a. claims against defendants under suit.
b. dividends receivable.
c. deposits paid to cover potential losses.
d. oral promises of the purchaser to pay for goods and services sold.

Ans: D - Accounts receivable (oral promises of the purchaser to pay for goods and services sold) is a trade receivable., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

65. If a company purchases merchandise on terms of 1/10, n/30, the cash discount available is equivalent to what effective annual rate of interest (assuming a 360-day year)?
a. 1%
b. 12%
c. 18%
d. 30%

Ans: C - [360 days ÷ (30 days – 10 days)] x 1% = 18% effective annual rate of interest., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

66. Which of the following methods of determining annual bad debt expense violates the expense recognition concept?
a. Estimated based on aging analysis
b. Percentage of ending accounts receivable
c. Percentage of average accounts receivable
d. Direct write-off

Ans: D -The direct write-off method usually fails to record expenses in the same period as the associated revenue and therefore violates the expense recognition concept. Percentage of receivables estimates bad debt expense and reports accounts receivable at their cash realizable value., LO: 2, Bloom: C, Difficulty: Easy, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

67. The required balance in Wheeler's allowance for doubtful accounts is €36,750, based on an aging of its accounts receivable. The allowance for doubtful accounts currently has a debit balance of €4,200. Wheeler's bad debt expense for the period is
a. €4,200.
b. €36,750.
c. €40,950.
d. €32,550.

Ans: C - The existing balance in allowance for doubt accounts is considered under the percentage-of-receivables method. Therefore, bad debt expense is €40,950 (€36,750 + €4,200)., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

68. The required balance in Bentley plc's allowance for doubtful accounts is £36,750, based on an aging of its accounts receivable. The allowance for doubtful accounts currently has a credit balance of £4,200. Wheeler's bad debt expense for the period is
a. £4,200.
b. £36,750.
c. £40,950.
d. £32,550.

Ans: D - The existing balance in allowance for doubt accounts is considered under the percentage-of-receivables method. Therefore, bad debt expense is €32,550 (€36,750 - €4,200)., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

69. The agreement of sale made no mention of interest; however, 9% would be a fair rate for this type of transaction. What should be the amount of the notes receivable net of the unamortized discount on December 31, 2022 rounded to the nearest dollar? (The present value of an ordinary annuity of 1 at 9% for 2 years is 1.75911).
a. $105,547
b. $135,547
c. $120,000
d. $211,092

Ans: A - The present value of the annuity is ($60,000 × 1.75911) or $105,547., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: Measurement, IMA: Reporting

70. The interest rate that equates the cash paid with the amount received in the future on a zero-interest-bearing note is the
a. implicit rate.
b. flat rate.
c. nominal rate.
d. stated rate.

Ans: A - The implicit rate can be computed based on the present value and the future values involved., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

71. Finance companies that buy receivables from businesses are called
a. receivers.
b. principles.
c. factors.
d. recoursers.

Ans: C - Factors buy other companies' receivables for a fee., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

72. In a transfer of receivables accounted for as a secured borrowing,
a. a gain or loss is recorded.
b. receivables are reduced.
c. a finance charge is recorded.
d. a recourse liability is recognized.

Ans: C - In a transfer of receivables accounted for as a borrowing, the receivables remain on the books of the borrower and a finance charge is recorded., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

73. On March 1, 2022, Parker Pasta Company assigns $1,400,000 of its accounts receivable to First Bank as collateral for a $1,000,000 note. First Bank assesses a finance charge of 1 percent of the accounts receivable and interest on the note of 12 percent. Which of the following is correct regarding this transaction?
a. First Bank has purchased Parker Pasta's receivables.
b. On March 1, 2022, First Bank will credit interest revenue for $14,000.
c. On March 1, 2022, First Bank will credit gain on purchase of receivables for $34,000.
d. On March 1, 2022, First Bank will credit due from factor for $20,000.

Ans: B - On March 1, 2022, First Bank will debit notes receivable for $1,000,000, credit interest revenue for $14,000, and credit cash for $986,000. The bank has provided a loan, and the receivables are collateral for the loan., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

74. The accounts receivable turnover ratio measures the
a. Number of times the average balance of accounts receivable is collected during the period.
b. Percentage of accounts receivable turned over to a collection agency during the period.
c. Percentage of accounts receivable arising during certain seasons.
d. Number of times the average balance of inventory is sold during the period.

Ans: A - The accounts receivable turnover ratio measures the number of times the average balance of accounts receivable is collected during the period., LO: 5, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

75. Alma Company's average collection period is 45 days and its net sales are $2,430,000. What are Alma Company's average receivables for the period?
a. $299,630
b. $54,000
c. $196,830
d. $202,500

Ans: A - Dividing net sales by average receivables (net) produces the accounts receivable turnover ratio. The average collection period is computed as 365 days ÷ the accounts receivable turnover ratio. In this case, 365 ÷ x = 45 days. So, the accounts receivable turnover ratio is 8.11. $2,430,000 ÷ Average A/R = 8.11. So, average A/R is $299,630., LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

76. In preparing its August 31, 2022 bank reconciliation, York AG has available the following information:

Balance per bank statement, August 31, 2022	€ 21,650
Deposit in transit, August 31, 2022	3,900
Return of customer's check for insufficient funds, August 30, 2022	600
Outstanding checks, August 31, 2022	2,750
Bank service charges for August	100

At August 31, 2022, York's correct cash balance is
a. €22,800.
b. €22,200.
c. €22,100.
d. €20,500.

Ans: A - €21,650 + €3,900 - €2,750 = €22,800., LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

77. Which of the following helps reduce the size of a company's float?
a. Lockbox accounts
b. Impress accounts
c. Petty cash accounts
d. Bank reconciliation procedures

Ans: A - Multiple collection centers generally reduce the size of a company's float. The greatest advantage of a lockbox is that it accelerates the availability of collected cash., LO: 6, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

78. Under U.S. GAAP, bank overdrafts are
a. reported as a deduction from the current assets section.
b. reported as a deduction from shareholder's equity.
c. netted against cash and a net cash amount reported.
d. reported as a current liability.

Ans: D - Under U.S. GAAP, bank overdrafts are reported as current liabilities., LO: 7, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

79. The IFRS approach to derecognizing a receivable focuses on which of the following?
a. Rewards
b. Risks
c. Loss of control
d. All of these choices are correct.

Ans: D - When derecognizing a receivable, IFRS considers an approach focused on risks, rewards, and loss of control., LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

80. Mantz Manufacturing Company has the following account balances at year end.

Office supplies	$ 6,000
Raw materials	21,000
Work in process	44,000
Finished goods	52,000
Prepaid insurance	8,000

What amount should Mantz report as inventories in its balance sheet?

a. $52,000
b. $96,000
c. $117,000
d. $123,000

Ans: C - $21,000 + $44,000 + $52,000 = $117,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

81. Which of the following would **not** be included in a manufacturing company's balance sheet?

a. Finished goods inventory
b. Merchandise inventory
c. Raw materials inventory
d. Work in process inventory

Ans: B - All of the options would be included in a manufacturer's balance sheet except merchandise inventory., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

82. Which of the following inventories carried by a manufacturer is similar to the merchandise inventory of a retailer?

a. Raw materials
b. Work-in-process
c. Finished goods
d. Supplies

Ans: C - Finished goods are ready for sale, similar to merchandise inventory., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

83. Where should raw materials be classified on the statement of financial position?

a. Prepaid expenses
b. Inventory
c. Equipment
d. Not on the statement of financial position

Ans: B - Raw materials are an element of manufacturing inventory., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

84. Which of the following accounts is **not** reported in inventory?
a. Raw materials
b. Equipment
c. Finished goods
d. Supplies

Ans: B - Equipment is reported as part of long-lived assets (property, plant, and equipment)., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

85. Computers for You is a retailer specializing in selling computers and related equipment. Which of the following would **not** be reported in the merchandise inventory account reported on the statement of financial position for Computers for You at December 31, 2022?
a. Computer purchased for resale during November 2022
b. Shelving materials purchased during December 2022
c. Freight costs related to the computers purchased in November
d. All of the choices are included in the merchandise inventory account at December 31, 2022

Ans: B - Shelving materials are reported as part of property, plant, and equipment., LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

86. Under a periodic inventory system,
a. inventory over and short is reported.
b. purchases of inventory are recorded in an inventory account.
c. cost of goods sold is determined with every sale.
d. cost of goods sold is a residual amount.

Ans: D - Under a periodic inventory system, the cost of goods sold is a residual amount that depends on a physical count of ending inventory., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

87. Which of the following accounts does **not** exist in a perpetual inventory system?
a. Inventory
b. Cost of Goods Sold
c. Sales Returns and Allowances
d. Purchases

Ans: D - The Purchases account exists in a periodic inventory system, not a perpetual inventory system., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

88. Fallon Inc. is a calendar-year corporation. Its financial statements for the years 2022 and 2021 contained errors as follows

	2022	**2021**
Ending inventory	$9,000 overstated	$18,000 overstated
Depreciation expense	6,000 understated	13,500 overstated

Assume that the proper correcting entries were made at December 31, 2021. By how much will 2022 income before taxes be overstated or understated?

a. $3,000 understated
b. $16,500 overstated
c. $10,500 overstated
d. $15,000 overstated

Ans: D - Overstating ending inventory by $9,000 plus the understatement of depreciation expense by $6,000 overstates net income by $15,000 during 2022. The 2021 depreciation expense was absorbed in retained earnings in 2021. The 2021 inventory error results in an overstatement of income in 2021 and an understatement in 2021 of net income. The net effect as of the end of 2022 is a $15,000 overstatement in 2022. LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

89. If the beginning inventory is overstated at the end of 2022,

a. the current ratio will be overstated in 2022.
b. cost of goods sold will be understated in 2022.
c. retained earnings will be understated in 2022.
d. working capital will be understated in 2022.

Ans: C - If beginning inventory is overstated, cost of goods sold is overstated and net income and retained earnings are understated., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

90. Companies must allocate the cost of all the goods available for sale (or use) between the

a. cost goods on hand at the beginning of the period as reported on the statement of financial position and the cost of goods acquired or produced during the period.
b. cost of goods on hand at the end of the period as reported on the statement of financial position and the cost of goods acquired or produced during the period.
c. income statement and the statement of financial position.
d. units purchased and the units available for sale.

Ans: C - Costs are allocated between ending inventory (statement of financial position) and Cost of Goods Sold (income statement)., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

91. Under a perpetual inventory system, which accounts are debited each time a sale on account is made?

a. Accounts Payable and Purchases
b. Accounts Receivable and Cost of Goods Sold
c. Inventory and Cost of Goods Sold
d. Accounts Receivable and Purchases

Ans: B - When a sale on account is made under a perpetual inventory system, Accounts Receivable is debited for the selling price of the goods and Cost of Goods Sold is debited for the cost of the goods., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

92. Which of the following items should be included in a company's inventory at the balance sheet date?

a. Goods in transit which were purchased f.o.b. shipping point
b. Goods received from another company for sale on consignment
c. Goods sold to a customer that is being held for the customer to call for at his or her convenience
d. Goods sold to a customer that was shipped f.o.b. shipping point

Ans: A - Goods in transit which were purchased f.o.b. shipping point should be included in the company's inventory. Goods in transit sold to a customer f.o.b. destination are owned by the buyer while in transit., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

93. Where should goods in transit that were recently purchased f.o.b. destination be included on the statement of financial position?

a. Accounts payable
b. Inventory
c. Not reported
d. On the income statement

Ans: C - Goods will be recognized when received at destination. They are still owned by seller until they arrive at the destination., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

94. FBS Corporation uses the perpetual inventory method and the gross method for recording purchases on account. On May 11, it purchased $44,000 of inventory, terms 2/10, n/30. On May 13, FBS returned goods that cost $4,000. On May 19, FBS paid the supplier. On May 19, the company should credit

a. Purchase Discounts for $880.
b. Inventory for $880.
c. Purchase Discounts for $800.
d. Inventory for $800.

Ans: D - ($44,000 − $4,000) × 2% = $800., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

95. IFRS exclude which of the following from the cost of inventory?

a. Most storage costs
b. General administrative costs
c. Selling costs
d. All of these answer choices are excluded by IFRS.

Ans: D - Most storage costs, general administrative costs, and selling costs are excluded from the cost of inventory under IFRS., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

96. In a period of rising prices, the inventory method that produces the highest ending inventory is

a. the average-cost method.
b. FIFO.
c. LIFO.
d. the method that results in the highest cost of goods sold.

Ans: B - In a period of rising prices, the FIFO method always produces the highest ending inventory, because older, lower priced items are sold first., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

97. Which cost flow assumption would be most appropriate when a relatively small number of costly, easily distinguishable items are sold?

a. Specific identification
b. FIFO perpetual
c. FIFO periodic
d. Average

Ans: A - Specific identification is the most appropriate cost flow assumption to use in such circumstances., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

98. The acquisition cost of a certain raw material changes frequently. The carrying value of the inventory of this material at year end will be the same if perpetual records are kept as it would be under a periodic inventory method only if the carrying value is computed under the
a. weighted-average method.
b. moving average method.
c. FIFO method.
d. None of these are correct.

Ans: C - FIFO results in the same ending inventory under periodic or perpetual inventory systems., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

99. Which of the following is a reason why the specific identification method may be considered ideal for assigning costs to inventory and cost of goods sold?
a. The potential for manipulation of net income is reduced.
b. There is no arbitrary allocation of costs.
c. The cost flow matches the physical flow.
d. Able to use on all types of inventory.

Ans: C - Specific identification matches physical flow so it will be most accurate as to items sold., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

100. Property, plant, and equipment includes
a. deposits on machinery not yet received.
b. idle equipment awaiting sale.
c. land held for possible use as a future plant site.
d. None of these answer choices are classified as property, plant, and equipment.

Ans: D - None of these items is properly classified as a plant asset. Historical cost measures the cash or cash equivalent price of obtaining the asset and bringing it to the location and condition necessary for its intended use., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

101. Cayo Casta Cabins Corporation recently purchased Ship Island Resort and Casino and the land on which it is located with the plan to tear down the resort and build a new luxury hotel on the site. Cayo Casta Cabin Corporation salvaged fixtures and wood flooring from Ship Island prior to demolishing the building. The proceeds from the sale of the salvaged materials should be
a. recognized as revenue in the period of the sale.
b. recognized as a gain in the year the hotel is torn down.
c. recorded as a reduction of the cost of the land.
d. recorded as a reduction of the cost of the new hotel.

Ans: C - Proceeds from the sale of the salvaged materials should reduce the cost of the land because it reduces the cost of getting the land ready for its intended use., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

102. The cost of equipment includes all of the following **except**
a. a purchase price reduced by any discount taken.
b. freight costs.
c. installation costs.
d. required maintenance costs during the first year of operations.

Ans: D - The cost of training the equipment operator would not be capitalized as part of the cost of the equipment., LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

103. Watauga Company purchased equipment on July 1, 2022 for $70,000. Sales tax on the purchase was $700. Other costs incurred were freight charges of $800, insurance during shipping of $150, repairs of $1,300 for damage during installation, and installation costs of $1,050. What is the cost of the equipment?
a. $70,000
b. $71,500
c. $72,700
d. $74,000

Ans: C - The cost is $70,000 + $700 + $800 + $150 + $1,050 = $72,700. Repair costs are not capitalized because they are not part of the cost of obtaining or bringing the asset to the condition intended for use., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

104. The cost of property acquired by the issuance of securities which are actively traded on an organized exchange is equal to the
a. original cost of the securities.
b. market price of the securities.
c. par value of the securities.
d. book value of the property acquired.

Ans: B - Property acquired by issuing securities is recorded at the market price of the shares issued is a fair indication of the cost of the property acquired. The shares are a good measure of the current cash equivalent price, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

105. During self-construction of an asset by Gambino Company, the following were among the costs incurred.

Fixed overhead for the year	$1,210,000
Portion of $1,210,000 fixed overhead that would be allocated to the asset if it were normal production	35,000
Variable overhead attributable to self-construction	25,000

What amount of overhead should Gambino include in the cost of the self-constructed asset?
a. $ -0-
b. $25,000
c. $35,000
d. $60,000

Ans: D - The amount is $35,000 + $25,000, or $60,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

106. Overhead costs related to self-constructed assets are accounted for by
a. allocating overhead on the basis of lost production.
b. assigning a portion of all overhead to the asset, even if the total cost exceeds the normal purchase.
c. assigning no fixed overhead to the asset.
d. assigning a pro rata portion of fixed overhead to the asset.

Ans: D - A pro rata portion of fixed overhead should be assigned to the self-constructed asset because a better matching of costs and revenues results., LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

107. The interest rate(s) used in computing the capitalized borrowing cost is(are) the
a. rate incurred on specific borrowings.
b. weighted-average rate incurred on all other outstanding debt.
c. lower of the rate incurred on specific borrowings or the capitalization rate.
d. rate incurred on specific borrowings for the average carrying amount of the expenditures equal to the specific borrowings and the capitalization rate of other borrowings for the excess expenditures.

Ans: D - The interest rates used in computing the capitalized borrowing cost are the rate on specific borrowings and the capitalization rate., LO: 2, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

108. Which of the following statements is true regarding capitalization of interest?
a. Interest cost capitalized in connection with the purchase of land to be used as a building site should be debited to the land account and not to the building account.
b. The amount of interest cost capitalized during the period should not exceed the actual interest cost incurred.
c. When excess borrowed funds not immediately needed for construction are temporarily invested, any interest earned should not be offset against interest cost incurred when determining the amount of interest cost to be capitalized.
d. The minimum amount of interest to be capitalized is determined by multiplying the capitalization rate by the amount of total expenditures on qualifying assets during the period.

Ans: B - Capitalizing the lesser of actual interest cost for the period or the amount of interest cost computed by multiplying the average carrying amount by the capitalization rate is the approach recommended under IFRS., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

109. The accounting for interest costs incurred during construction recommended under IFRS is to
a. capitalize no interest charges during construction.
b. charge construction with all costs of funds employed, whether identifiable or not.
c. capitalize the lesser of actual interest cost for the period or the amount of interest cost computed by multiplying the average carrying amount by the capitalization rate.
d. capitalize a pro rata portion of all costs of funds employed.

Ans: C - The amount of interest cost capitalized during the period should not exceed the actual interest cost incurred., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

110. Property received through a government grant is recognized at its fair value and offset with a credit entry to the
  a. Miscellaneous Gain account.
  b. Accumulated Depreciation account.
  c. Deferred Grant Revenue account.
  d. Share Capital account.

Ans: C - IFRS requires that such grants be recognized by recording the grant as deferred grant revenue, which is recognized as income on a systematic basis over the useful life of the asset, or by deducting the grant from the carrying amount of the assets received from the grant, in which case the grant is recognized in income as a reduction of depreciation expense., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

111. Fielder Company purchased land and a building for a lump sum cost of $420,000. The land has a fair value of $160,000 and the building has a fair value of $320,000. The cost assigned to the land is
  a. $0.
  b. $140,000.
  c. $160,000.
  d. $210,000.

Ans: B - The lump sum price incurred to acquire more than one asset is allocated among them based on their relative fair values: ($160,000 ÷ $480,000) × $420,000 = $140,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

112. Delta River Company sold manufacturing equipment with a cost of $44,000 and accumulated depreciation of $32,000 for $9,000. The journal entry to record this transaction will include a
  a. credit to the Equipment account for $12,000.
  b. credit to a gain account for $8,000.
  c. debit to a loss account for $3,000.
  d. credit to Accumulated Depreciation – Equipment for $32,000.

Ans: C - The journal entry to record the sale would include debits to Cash ($9,000), Accumulated Depreciation – Equipment ($32,000) and a loss account ($3,000). Equipment would be credited for $44,000., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

113. Rhett Company exchanged equipment that cost $66,000 and has accumulated depreciation of $30,000 for equipment with a fair value of $48,000 and received $12,000 cash. The exchange lacked commercial substance. The gain to be recognized from the exchange is
  a. $0.
  b. $6,000 gain.
  c. $18,000 gain.
  d. $24,000 gain.

Ans: D - The formula is {($48,000 + $12,000) – ($66,000 - $30,000)}, or $24,000. The economic position of Rhett did not change significantly as a result of this exchange as it lacks commercial substance. The gain is deferred by reducing the basis of the newly acquired equipment., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

114. In an exchange of nonmonetary assets that has commercial substance, when no cash is involved, the new asset is valued at

a. the fair value of the new asset plus the gain deferred.
b. the book value of the old asset.
c. the book value of the old asset plus the gain deferred.
d. the fair value of the new asset.

Ans: D - In an exchange of nonmonetary assets that has commercial substance, the economic position changes, and any gain or loss is recognized. When no cash is exchanged, the new asset will be valued at the fair value of either the old asset or the new asset, as they will be equal., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

115. A plant site donated by a manufacturer to a township that plans to build a new public marina should be recorded on the manufacturer's books

a. at a gain equal to the site’s book value.
b. as a donation expense at the site’s fair value.
c. as a revenue at the site’s fair value.
d. at the site’s book value as a loss.

Ans: B - The donated asset should be recorded at its fair value as a donation expense., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

116. On September 1, 2022, Alpha Graphics Printing Co. incurred the following costs for one of its printing presses.

Purchase of attachment	$35,000
Installation of attachment	3,000
Replacement parts for renovation of press	12,000
Labor and overhead in connection with renovation of press	1,000

The renovation resulted in increased future service potential of the press. What amount of the costs should be capitalized?

a. $0
b. $38,000
c. $47,000
d. $51,000

Ans: D -. Since the renovation increased the future service potential of the press, all $51,000 should be capitalized, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

117. Expenditures that increase the future service potential and are a substitution of a better asset for the original asset are accounted for

a. as a replacement of a similar asset and expensed as incurred.
b. as a rearrangement of assets and is debited as an expense.
c. by adding the cost of the new asset and removing the cost of the old asset and related depreciation, and recognize a loss, if any.
d. by debiting Accumulated Depreciation for the cost of the new asset.

Ans: C - Expenditures that increase the future service potential and are a substitution of a better asset for the original asset are accounted for by adding the cost of the new asset and removing the cost of the old asset and related depreciation, and recognize a loss, if any., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

118. Silver Oak Company purchased machinery for A$320,000 on January 1, 2018. Straight-line depreciation has been recorded based on a A$20,000 salvage value and a 5-year useful life. The machinery was sold on May 1, 2022 at a gain of A$6,000. How much cash did Silver Oak receive from the sale of the machinery?

a. A$46,000
b. A$54,000
c. A$66,000
d. A$86,000

Ans: C – At the time of sale, accumulated depreciation is (A$320,000 − A$20,000) × 52/60, or A$260,000, resulting in a book value of A$320,000 − $260,000, or A$60,000. Adding the $6,000 gain indicates sale price was $66,000., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

119. Timber Ridge Company sold equipment with a cost of $75,000 and accumulated depreciation of $40,000 for $37,000. The journal entry to record this transaction will include a

a. credit to the Equipment account for $35,000.
b. credit to a gain account for $38,000.
c. debit to a loss account for $2,000.
d. debit to Accumulated Depreciation – Equipment for $40,000.

Ans: D - When plant assets are sold for an amount greater than their book value, a gain is recorded. The journal entry would include debits to Cash ($37,000) and Accumulated Depreciation ($40,000), and credits to Equipment ($75,000) and a gain account ($2,000)., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

123. Which of the following principles best describes the conceptual rationale for the methods of matching depreciation expense with revenues?
  a. Associating cause and effect
  b. Systematic and rational allocation
  c. Immediate recognition
  d. Partial recognition

  Ans: B - Depreciation is a systematic and rational allocation of costs to periods of benefit., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

124. Which of the following is **not** true of depreciation accounting?
  a. Depreciation lowers the book value of the asset as it ages and its fair value declines.
  b. Depreciation matches expenses against revenues over the periods which benefit from the asset's use.
  c. Depreciation is a process of cost allocation.
  d. Tangible assets with limited lives are depreciated.

  Ans: A - Depreciation is not a matter of valuation., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

125. The major difference between the service life of an asset and its physical life is that
  a. service life refers to the time an asset will be used by a company and physical life refers to how long the asset will last.
  b. physical life is the life of an asset without consideration of salvage value and service life requires the use of salvage value.
  c. physical life is always longer than service life.
  d. service life refers to the length of time an asset is of use to its original owner, while physical life refers to how long the asset will be used by all owners.

  Ans: A - Service life refers to the time an asset will be used by a company and physical life refers to how long the asset will last., LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

126. A principal objection to the straight-line method of depreciation is that it
  a. provides for the declining productivity of an aging asset.
  b. ignores variations in the rate of asset use.
  c. tends to result in a constant rate of return on a diminishing investment base.
  d. gives smaller periodic write-offs than decreasing charge methods.

  Ans: B - A principal objection to the straight-line method of depreciation is that it ignores variations in the rate of asset use., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

127. Dixon Company purchased a depreciable asset for ₤32,000. The estimated salvage value is ₤4,000, and the estimated useful life is 4 years. The double-declining balance method will be used for depreciation. What is the depreciation expense for the second year on this asset?

a. ₤6,400
b. ₤7,000
c. ₤8,000
d. ₤16,000

Ans: C - The first year's depreciation is (50% of ₤32,000) ₤16,000. The second year's depreciation is [50% of (₤32,000 − ₤16,000)] or ₤8,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

128. Chattanooga Company purchased a depreciable asset for ¥80,000 on January 1, 2020. The estimated salvage value is ¥20,000, and the estimated useful life is 5 years. The straight-line method is used for depreciation. On January 1, 2022, the company made a capital expenditure of ¥16,000 for an addition to the asset. What is depreciation expense for 2022?

a. ¥12,000
b. ¥14,400
c. ¥24,000
d. ¥17,333

Ans: D - (¥80,000 − ¥20,000) ÷ 5 years equals depreciation expense of ¥12,000 per year for 2020 and 2021. To compute the revised depreciation, calculate the new book value: ¥80,000 − ¥24,000 + ¥16,000 = ¥72,000, subtract salvage value of ¥20,000 and divide by the remaining useful life of 3 years to get depreciation expense of ¥17,333., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

129. Lundy Company purchased a depreciable asset for $99,000. The estimated salvage value is $18,000, and the estimated useful life is 9 years. The double-declining balance method will be used for depreciation. What is the depreciation expense for the second year on this asset? Round the depreciation rate to nearest whole percentage.

a. $11,000
b. $13,900
c. $16,988
d. $17,820

Ans: C – The rate is 2 × 1/9 = 22%.The first year's depreciation is (22% of $99,000) $21,780. The second year's depreciation is [22% of ($99,000 − $21,780)] or $16,988., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

130. Cambodian Import Company purchased a depreciable asset for €160,000 on April 1, 2019. The estimated salvage value is €40,000, and the estimated useful life is 5 years. The straight-line method is used for depreciation. What is the balance in accumulated depreciation on March 1, 2022 when the asset is sold?

a. €66,000
b. €70,000
c. €72,000
d. €186,667

Ans: B - (€160,000 − €40,000) ÷ 60 months results in a monthly depreciation of €2,000. For 35 months the accumulated depreciation is €70,000., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

131. Antigua Company purchased a depreciable asset for $45,000 on October 1, 2020. The estimated salvage value is $9,000, and the estimated useful life is 6 years. The straight-line method is used for depreciation. What is the book value on July 1, 2022 when the asset is sold?

a. $10,500
b. $15,750
c. $25,500
d. $34,500

Ans: D - ($45,000 − $9,000) ÷ 72 months results in a monthly depreciation of $500. After 21 months, the balance in accumulated depreciation is $10,500 and the book value of the asset is $34,500., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

132. All of the following are true with regard to impairment testing of long-lived assets **except**

a. if impairment indicators are present, the company must conduct an impairment test.
b. the impairment test compares the asset’s carrying value with the lower of its fair value less cost to sell and its value-in-use.
c. if the recoverable amount is lower than the carrying value, an impairment loss will be reported on the period’s income statement.
d. if either the fair value less cost to sell or the value-in-use is higher than the carrying amount, no impairment loss will be recorded.

Ans: B - The impairment test compares the asset’s carrying value with the lower of its fair value less cost to sell and its value-in-use., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

133. An impairment of property, plant, or equipment has occurred if the

a. estimated salvage value is less than the actual proceeds received on disposal.
b. recoverable amount is less than the asset’s carrying value.
c. revised estimated useful life is less than the original estimated useful life.
d. expected future cash outflows exceeds the asset’s carrying value.

Ans: B - An asset impairment occurs when the recoverable amount is less than the asset’s carrying value., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

134. Erie Corporation owns machinery with a book value of $2,200,000. It is estimated that the machinery will generate future cash flows of $1,995,000. The machinery has a fair value (recoverable amount) of $1,915,000. The journal entry to record the impairment loss will

a. record a discontinued operations loss of $80,000.
b. increase the asset's Accumulated Depreciation account by $285,000.
c. reduce income from continuing operations by $205,000.
d. include a $285,000 credit to the asset account.

Ans: B - The impairment loss of $285,000 (book value of $2,200,000 less the recoverable amount of $1,915,000) is recorded with a debit to an ordinary loss account and a credit to Accumulated Depreciation., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

135. Lebanon Corporation owns equipment with a cost of ₤320,000 and accumulated depreciation at December 31, 2022 of ₤120,000. It is estimated that the machinery will generate future cash flows of ₤175,000. The machinery has a recoverable amount of ₤155,000. Lebanon should recognize a loss on impairment of

a. ₤0.
b. ₤25,000.
c. ₤35,000.
d. ₤45,000.

Ans: D - The impairment loss would be the ₤45,000 difference between the asset's book value of ₤200,000 and its recoverable amount of ₤155,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

136. Flannery Corporation owns machinery with a book value of €520,000. It is estimated that the machinery will generate future cash flows of €465,000. The machinery has a recoverable amount of €415,000. Florence should recognize a loss on impairment of

a. € -0-.
b. €50,000.
c. €55,000.
d. €105,000.

Ans: D - The recoverable amount (€415,000) is less than the book value €520,000), resulting in a loss of €105,000 to be recognized., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

137. Mains Corporation owns equipment with a cost of €290,000 and accumulated depreciation at December 31, 2022 of €150,000. It is estimated that the machinery will generate future cash flows of €165,000. The machinery has a recoverable amount of €145,000. Mains should recognize a loss on impairment of

a. €0.
b. €15,000.
c. €25,000.
d. €35,000.

Ans: A - No impairment loss is recognized because the recoverable amount (€145,000) exceeds the €140,000 book value of the asset., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

138. The total cost of natural resources includes all of the following **except**
a. exploration costs.
b. intangible development costs.
c. restoration costs.
d. All of the options are included in the total cost.

Ans: D - The total cost of natural resources includes all of the options., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

139. Depletion expense
a. is usually part of cost of goods sold.
b. includes tangible equipment costs in the depletion base.
c. excludes intangible development costs from the depletion base.
d. excludes restoration costs from the depletion base.

Ans: A - Depletion expense is usually part of cost of goods sold., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

140. The most common method of recording depletion for accounting purposes is the
a. percentage depletion method.
b. diminishing-charge method.
c. straight-line method.
d. units-of-production method.

Ans: D - The most common method of recording depletion for accounting purposes is the units-of-production method, as it corresponds to the units extracted., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

141. Under IFRS, how is the account revaluation surplus reported?
a. As “other revenues and expenses” on the income statement.
b. As part of other comprehensive income which can be reported presented in separate statement, combined with income statement, or in changes in equity statement.
c. It is included with Reserves in the equity section of the Statement of Financial Position.
d. The account is not reported in the financial statements.

Ans: B - Revaluation Surplus is reported a part of other comprehensive income which can be presented in a separate statement, combined with the income statement, or in changes in stockholders’ equity statement., LO: 5, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

142. For 2022, Lassiter Company reports beginning of the year total assets of €900,000, end of the year total assets of €1,100,000, net sales of €1,250,000, and net income of €250,000. Lassiter's 2022 asset turnover ratio is
a. 0.23 times.
b. 0.25 times.
c. 1.14 times.
d. 1.25 times.

Ans: D - €1,250,000 ÷ [(€900,000 + €1,100,000) ÷ 2] is 1.25 times, indicating the Lassiter generates €1.25 of sales for every € of assets., LO: 6, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

143. Which of the following is **not** a characteristic of intangible assets?

a. They lack physical existence.
b. They are not financial instruments.
c. They are long-term in nature.
d. They are all subject to amortization.

Ans: D - All of the options are characteristics except not all intangibles are subject to amortization., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

144. Expensing all R&D costs associated with internally created intangible assets could result in
a. overstating assets and overstating expenses.
b. overstating assets and understating expenses.
c. understating assets and overstating expenses.
d. understating assets and understating expenses.

Ans: C - Expensing all R&D costs associated with internally created intangible assets could result in understating assets and overstating expenses., LO: 5, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

145. A purchased limited-life intangible asset _______ amortized and is impairment tested using ________.
a. is; the recoverable amount test.
b. is not; the fair value test only.
c. is not; the recoverable amount test.
d. is; the fair value only.

Ans: A - A purchased limited-life intangible asset is amortized and is impairment tested using the recoverable amount test., LO: 1,4, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

146. Which of the following is a factor to be considered in determining a limited-life intangible asset's useful life?
  a. Any legal provisions that may limit the useful life
  b. The expected useful life of any related asset
  c. The effects of obsolescence
  d. All of the answer choices are correct

Ans: D - All of the options are factors affecting useful life., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

147. Which of the following is **not** one of the major categories of intangibles?
  a. Contract-related
  b. Financing-related
  c. Artistic-related
  d. Marketing-related

Ans: B - There is no category of financing-related intangibles., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

148. The difference between the price paid to acquire another company and the fair market value of that company's net assets can be referred to as
  a. a master valuation account.
  b. goodwill.
  c. a gap filler.
  d. All of these answer choices are correct.

Ans: D - Goodwill is the difference between the purchase price and the fair market value of the company's net assets. Since it is measured as a residual amount, it is sometimes called a master valuation account or a gap filler., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

149. On January 1, 2022, Springsteen AG acquires a customer list for €400,000. Springsteen estimates that this customer list will generate value for at least 5 years. At the end of 3 years, Springsteen plans to sell the customer list to another company for €62,500. On Springsteen's income statement for the year ended December 31, 2022, how much amortization expense would it report?
  a. €67,500
  b. €133,333
  c. €80,000
  d. €112,500

Ans: D - Customer lists should be amortized over their useful life: (€400,000 – €62,500)/ 3 years = €112,500 annual amortization expense., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

150. Eisenhower Corporation purchased a patent for $1,850,000 on November 30, 2020. It has a remaining legal life of 18 years. Eisenhower estimates that the remaining useful life of the patent is 15 years. What balance will be reported on the December 31, 2022 balance sheet for the patent (if necessary, round your answer to the nearest dollar)?

a. $1,850,000.
b. $1,583,678.
c. $1,593,056.
d. $1,485,606.

Ans: C - Total amortization expense charged between November 30, 2020 and December 31, 2022: $1,850,000 ÷ 180 months × 25 months = $256,944. The balance in the Patent account would be: $1,850,000 − $256,944 = $1,593,056, LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

151. Kern plc began operating as a business in 2022. During January 2022, the company paid £300,000 in design costs to develop its trademark and £250,000 in legal and registration fees to secure the trademark. During October 2022, the company successfully defended its trademark, paying an additional £150,000 in legal fees during the process. At what amount should Kern plc report its trademark on the acquisition date prior to amortization?

a. £150,000
b. £400,000
c. £550,000
d. £700,000

Ans: C - When a company develops a trademark, it capitalizes the costs related to securing it including legal fees, registration fees, and design costs. In this case, £300,000 + £250,000 = £550,000. Legal costs are expensed regardless if successful or not, LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

152. Zak Ltd. and Clark Group were combined in a purchase transaction. Zak Ltd. was able to acquire Clark at a bargain price. The fair market value of Clark's net assets exceed the price paid by Zak to acquire the company. Proper accounting treatment by Zak is to report the excess of fair value over purchase price as

a. a gain.
b. a loss.
c. a liability.
d. paid-in capital.

Ans: A - Proper accounting treatment by Zak is to report the amount as a gain., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

153. Capitalizing goodwill only when it is purchased in an arm's-length transaction, and **not** capitalizing any goodwill generated internally, is an example of
  a. accrual accounting prevailing over cash-basis accounting.
  b. IFRS prevailing over GAAP.
  c. faithful representation prevailing over relevance.
  d. Comparability prevailing over consistency.

Ans: C - Capitalizing goodwill only when it is purchased in an arm's-length transaction, and not capitalizing any goodwill generated internally, is an example of faithful representation winning out over relevance., LO: 3, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

154. Truffle SA acquired a patent on January 1, 2019 for €7,800,000. It was expected to have a 10-year life and no residual value. Truffle uses straight-line amortization for its patents. On December 31, 2019, the expected future cash flows from the patent are €518,000 per year for the next six years. The present value of these cash flows, discounted at Truffle's market interest rate, is €2,120,000. What amount, if any, of impairment loss will be reported on Truffle's 2022 income statement?
  a. €1,340,000
  b. €2,120,000
  c. €2,560,000
  d. €4,680,000

Ans: C - Amortization charged to date is €7,800,000 ÷ 10 years × 4 years = €3,120,000. The carrying value of the patent at December 31, 2022 is €4,680,000 (€7,800,000 − €3,120,000). The impairment loss is the difference between the carrying value and the discounted expected future net cash flows: €4,680,000 − €2,120,000 = €2,560,000, LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

155. Kust Company acquired a patent on a manufacturing process on January 1, 2017 for $5,100,000. It was expected to have a 12-year life and no residual value. Kust uses straight-line amortization for patents. On December 31, 2022, the expected future cash flows from the patent are $387,500 per year for the next ten years. The present value of these cash flows, discounted at Kust's market interest rate, is $3,050,000. At what amount should the patent be carried on the December 31, 2022 balance sheet?
  a. $5,100,000
  b. $4,250,000
  c. $3,875,000
  d. $3,050,000

Ans: D - The book value of the patent at December 31, 2022 is $4,250,000 (cost of $5,100,000 less 2 years amortization at $425,000 per year). The patent should be carried on the balance sheet at the present value of $387,500 expected annual cash flows for the next 10 years, $3,050,000. LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

156. Felhofer AG purchased McKinley Marine on June 1, 2018 for €25,000,000 and recorded goodwill of €3,100,000 in connection with the purchase. At December 31, 2022, the McKinley Marine Division had a fair value of €25,400,000. The net identifiable assets of McKinley (including goodwill) had a fair value of €24,900,000 at that time. What amount of loss on impairment of goodwill should Felhofer record in 2022?

a. €0
b. €500,000
c. €600,000
d. €2,600,000

Ans: A - The fair value (recoverable amount) of McKinley is greater than its carrying amount so no impairment has occurred.,
LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

157. The impairment rule for goodwill involves how many steps?

a. 1
b. 2
c. 3
d. 4

Ans: A - There is one step. On an annual basis, compare the carrying value of the cash generating unit to its recoverable amount. If the recoverable amount is less, record an impairment loss., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

158. Which of the following principles best describes the current method of accounting for research costs?

a. Associating cause and effect
b. Systematic and rational allocation
c. Income tax minimization
d. Immediate recognition as an expense

Ans: D - Research costs should be immediately recognized as an expense., LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AICPA FN: None, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

159. Which of the following is considered a research activity?

a. Construction of a prototype
b. Operation of a pilot plant
c. Critical investigation aimed at discovery of new knowledge
d. All of these answer choices are correct

Ans: C - Critical investigation aimed at discovery of new knowledge is considered a research activity., LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

160. Which of the following costs should be **excluded** from research and development expense?
  a. Modification of the design of a product
  b. Acquisition of R&D equipment for use on a current project only
  c. Cost of marketing research for a new product
  d. Engineering activity required to advance the design of a product to the manufacturing stage

Ans: C - The cost of marketing research for a new product should be excluded from research and development expenses., LO: 5, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Measurement, AICPA BC: None, AICPA PC: None, IMA: Reporting

161. The presentation of intangible assets in the financial statements
  a. includes reporting R&D costs as an expense in the income statement
  b. involves crediting amortization directly to the intangible asset account
  c. includes the disclosure of the amortization expense for each of the next 5 years
  d. All of these answer choices are correct.

Ans: D - The presentation of intangibles in the financial statement includes reporting R&D expense in the income statement, crediting amortization directly to the intangible asset account, and disclosing amortization expense for the next 5 years., LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

162. Which of the following development costs may be capitalized?
  a. Contract services
  b. Personnel
  c. Indirect costs
  d. Development costs incurred after a project achieves economic viability

Ans: D - Development costs incurred after achieving economic viability are capitalized and amortized over the useful life of related intangibles., LO: 5, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

163. Which of the following statements is **false**?
  a. A company may exclude a short-term obligation from current liabilities if the firm intends to refinance the obligation on a long-term basis and has the unconditional right to complete the refinancing.
  b. Cash dividends should be recorded as a liability when they are declared by the board of directors.
  c. Unearned revenues represent advance payments for goods or services from customers.
  d. Stock dividends declared but not yet distributed are reported as a liability until the stock is issued.

Ans: D - Common stock dividends distributable is reported as a component of equity, not as a liability., LO: 1, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

164. Lyric Company issued a 90-day zero-interest-bearing note with a face amount of ¥€3,000. The present value of the note is €2,855. The journal entry to record the issuance of the note will include
  a. a debit to Notes Payable for €2,855.
  b. a debit to Interest Expense for €145.
  c. a debit to Cash for €2,855.
  d. None of these answers are correct.

Ans: C - The borrower receives the present value of the note because the interest has already been deducted so the Cash account is debited for that amount. The Notes Payable accounts is credited for the same amount, LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Measurement, Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

165. Liabilities are
  a. accounts having credit balances after closing entries are made.
  b. deferred credits that are recognized and measured in conformity with IFRS.
  c. obligations to transfer ownership shares to other entities in the future.
  d. obligations arising from past transactions and payable in assets or services in the future.

Ans: D - Liabilities are obligations arising from past transactions and payable in assets or services in the future., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

166. Which of the following is **not** an example of a current liability?
  a. Dividends Payable
  b. Preferred dividends in arrears
  c. Unearned Service Revenue
  d. Salaries Payable

Ans: B - Preferred dividends in arrears are not a liability until declared by the Board of Directors., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

167. Short-term obligations expected to be refinanced are **not** classified as current liabilities if
  a. they will be paid using restricted cash.
  b. the obligations will be satisfied after the financial statements are issued.
  c. their satisfaction will not require the use of assets classified as current as of the statement of financial position date.
  d. None of these answers are correct.

Ans: C - Because these obligations will not require the use of working capital during the next year (or operating cycle), they are not classified as current liabilities., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

168. Which of the following statements is correct?
  a. A company may exclude a short-term obligation from current liabilities if it intends to refinance the obligation on a long-term basis.
  b. A company may exclude a short-term obligation from current liabilities if it has an unconditional right to defer settlement of the liability for at least 12 months.
  c. A company may exclude a short-term obligation from current liabilities if it is paid off after the statement of financial position date and subsequently replaced by long-term debt before the statement of financial position is issued.
  d. None of these answer choices are correct.

Ans: D - None of the statements is correct. A company may exclude a short-term obligation from current liabilities if the company intends to refinance and has the unconditional right to complete the refinancing as of the statement of financial position date., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

169. Which of the following statements is **false**?
  a. When rights are vested, an employer has an obligation to make payment to an employee.
  b. Social security taxes and income taxes withheld are expenses of the employer.
  c. Profit-Sharing Bonus Payable is usually reported as a long-term liability.
  d. The liability for compensated absences should be recognized in the year earned.

Ans: C - Profit-Sharing Bonus Payable is usually reported as a current liability., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

170. Taxes withheld by the employer on behalf of the employee are recorded as
  a. current liabilities.
  b. expenses.
  c. unearned revenues.
  d. receivables.

Ans: A - The taxes are reported as liabilities because the employer is acting as the collection agent for the government, and must be remitted to the taxing authority on a timely basis., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

171. Employer-related liabilities include all the following **except**
  a. vacation pay.
  b. income withholding taxes.
  c. social security taxes.
  d. sick pay.

Ans: B – Employer- related liabilities include all options except income withholding taxes., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

172. Contingent assets should **not** be disclosed in the financial statements or the notes thereto if they are considered
  a. virtually certain.
  b. probable.
  c. likely.
  d. possible but not probable.

Ans: D - Contingent assets need not be disclosed in the financial statements or the notes thereto if they are possible but not probable, and disclosed in a note if probable, LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

173. Black Water Inc. is being sued by former employees as a result of negligence on the company's part. Black Water's lawyers state that it is probable that the company will lose the suit and be found liable for a judgment costing the company anywhere from ¥100,000,000 to ¥200,000,000. However, the lawyer states that the most probable cost is ¥125,000,000. As a result of the above facts, Black Water should accrue
  a. a loss provision of ¥100,000,000 and disclose an additional contingency of up to ¥100,000,000.
  b. a loss provision of ¥125,000,000 and disclose an additional contingency of up to ¥75,000,000.
  c. a loss provision of ¥125,000,000 but not disclose any additional contingency.
  d. no loss provision but disclose a contingency of ¥100,000,000 to ¥200,000,000.

Ans: B - Because a loss of ¥125,000,000 is more likely than any other amount in the range, Black Water should accrue ¥125,000,000 and disclose the potential additional loss of $75,000,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

173. A loss related to general or unspecified business risks is
  a. always accrued.
  b. not accrued.
  c. sometimes accrued.
  d. usually accrued.

Ans: B - A loss related to general or unspecified business risks is not accrued., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

174. Ultra-Energy Company offers a cash rebate of £2 on each £9 package of protein powder sold during 2022. Historically, 20% of customers mail in the rebate form. During 2022, 3,000,000 packages are sold, and 250,000 £2 rebates are mailed to customers. What is the rebate expense and liability, respectively, shown on the company's 2022 financial statements?
  a. £500,000; £700,000
  b. £1,200,000; £700,000
  c. £1,200,000; £500,000
  d. £500,000; £1,200,000

Ans: B - The expense is (3,000,000 packages × 20% × £2/ package) = £1,200,000. Since 250,000 $2 rebates were mailed in during 2022, the liability balance is £1,200,000 − £500,000, or £700,000., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

175. Fancy Fish Company offers a cash rebate of $0.25 on each $12 package of fish food sold during 2022. Historically, 10% of customers mail in the rebate form. During 2022, 5,000,000 packages are sold, and 150,000 $0.25 rebates are mailed to customers. What is the rebate expense and liability, respectively, reported in the company's 2022 financial statements?

a. $125,000; $37,500
b. $37,500; $87,500
c. $125,000; $125,000
d. $125,000; $87,500

Ans: D - The expense is 5,000,000 packages × 10% × $0.25 per package or $125,000. Since 150,000 $0.25 rebates were mailed in during 2022, the liability balance is $125,000 − $37,500, or $87,500., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

176. In 2021, General Dynamics Corporation began selling a new line of products that carries a two-year warranty against defects. Based upon past experience with other products, the estimated warranty costs related to dollar sales are as follows:

First year of warranty	2%
Second year of warranty	5%

Sales and actual warranty expenditures for 2021 and 2022 are presented below:

	2021	**2022**
Sales	€600,000	€800,000
Actual warranty expenditures	20,000	40,000

What is the estimated warranty liability at the end of 2022?

a. $38,000
b. $58,000
c. $98,000
d. $16,000

Ans: A - {[€600,000 × (2% + 5%)] + [€800,000 × (2% + 5%)]} – (€20,000 + €40,000) = €38,000., LO: 2, Bloom: AP, Difficulty: Medium, Min:3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

178. A contingent liability

a. always exists as a liability but its amount and due date are indeterminable.
b. is accrued even though not probable.
c. is recorded for possible self-insurance losses if a reasonable estimate is determinable.
d. is not reported as a liability if not probable.

Ans: D - A contingent liability is not reported as a liability if not probable or virtually certain., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

179. Accrued liabilities are disclosed in the financial statements by
   a. a footnote to the statements.
   b. showing the amount among the liabilities but not extending it to the liability total.
   c. an appropriation of retained earnings.
   d. appropriately classifying them as regular liabilities in the statement of financial position.

   Ans: D - Accrued liabilities are disclosed in the financial statements by appropriately classifying them as regular liabilities in the statement of financial position., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

180. The current ratio measures
   a. profitability.
   b. solvency.
   c. liquidity.
   d. All of these options are correct.

   Ans: C - The current ratio is a measure of a firm's ability to meet its currently maturing debt., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

181. Each of the following are included in both the current ratio and the acid-test ratio **except**
   a. cash.
   b. short-term investments.
   c. net receivables.
   d. inventory.

   Ans: D - Inventory is included in the current ratio but excluded in the acid-test ratio., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

182. Which of the following is **not** acceptable treatment for the presentation of current liabilities?
   a. Listing current liabilities in order of maturity.
   b. Listing current liabilities according to amount.
   c. Offsetting current liabilities against assets that are to be applied to their liquidation.
   d. Showing currently maturing long-term debt as part of current liabilities.

   Ans: C - Offsetting current liabilities against assets that are to be applied to their liquidation is not proper presentation of current liabilities., LO: 4, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

<u>Multiple Choice</u>

183. The covenants and other terms of the agreement between the issuer of bonds and the lender are set forth in the
   a. bond indenture.
   b. bond debenture.
   c. registered bond.
   d. bond coupon.

   Ans: A - The covenants and other terms of the agreement between the issuer of bonds and the lender are set forth in the bond indenture., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

184. A bond for which the issuer has the right to request from the bondholder and retire the bonds prior to maturity is a
a. convertible bond.
b. callable bond.
c. retirable bond.
d. debenture bond.

Ans: B - Callable bonds give the issuer the right to call and retire the bonds prior to maturity., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

185. A bond that matures in installments is called a
a. term bond.
b. serial bond.
c. callable bond.
d. bearer bond.

Ans: B - Bonds that mature in installments are referred to as serial bonds., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

186. On July 1, 2022, Eckert Company issues €10,000,000, 6%, 5-year bonds dated July 1, 2022. The bonds pay interest semiannually on December 31 and June 30. The bonds are issued to yield 5%. What are the proceeds from the bond issue?

	2.5%	**3.0%**	**5.0%**	**6.0%**
Present value of a single sum for 5 periods	0.88385	0.86261	0.78353	0.74726
Present value of a single sum for 10 periods	0.78120	0.74409	0.61391	0.55839
Present value of an annuity for 5 periods	4.64583	4.57971	4.32948	4.21236
Present value of an annuity for 10 periods	8.75206	8.53020	7.72173	7.36009

a. €10,000,000
b. €10,432,988
c. €10,437,618
d. €10,434,616

Ans: C – Interest payments are €10,000,000 × 6% × 6/12, or €300,000. The present value of the face amount of the bonds, €10,000,000 × 0.78120, plus the face amount of the interest payments, €300,000 × 8.75206 totals to €10,437,618., LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

187. The printing costs and legal fees associated with the issuance of bonds should
a. be expensed when incurred.
b. be reported as a deduction from the face amount of bonds payable and amortized into expense over the life of the bonds.
c. be accumulated in a deferred charge account and not affect effective interest amortization.
d. capitalized and then reported as an expense when the bonds mature or are retired.

Ans: B - The printing costs and legal fees associated with the issuance of bonds should be recorded as part of the carrying value of the bonds amortized over the life of the bonds., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

188. The selling price of a bond is the sum of the present values of the principal and the periodic interest payments. The present values are determined by discounting using the
a. stated rate.
b. nominal rate.
c. coupon rate.
d. market rate.

Ans: D - The market rate, also called the effective yield, is used to discount the cash flows in determining the selling price (proceeds) of a bond., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

189. On January 1, Gasperson, Inc. issued $100,000,000, 7% bonds at 102. The journal entry to record the issuance of the bonds will include
a. a credit to Bonds Payable for $102,000,000.
b. a credit to Premium on Bonds Payable for $2,000,000.
c. a debit to Cash for $100,000,000.
d. a credit to Interest Expense for $2,000,000.

Ans: A - The entry will credit Bonds Payable for $102,000,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

190. If a bond sold at 97, the market rate was
a. equal to the stated rate.
b. less than the stated rate.
c. greater than the stated rate.
d. equal to the coupon rate.

Ans: C - If a bond was sold at 97, it sold at a discount (97% of face value), which occurs when the market rate is greater than the stated rate., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

191. When a bond sells at a premium, interest expense will be
a. equal to the bond interest payment.
b. greater than the bond interest payment.
c. less than the bond interest payment.
d. None of these answer choices are correct.

Ans: C - Selling a bond at a premium results in interest expense being less than the interest payment because of the amortized premium., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

192. Under the effective interest method, interest expense
a. always increases each period the bonds are outstanding.
b. always decreases each period the bonds are outstanding.
c. is the same annual amount as cash interest paid.
d. is accrued using the market rate of interest.

Ans: D - Interest expense is based upon the carrying value of the bonds and the effective interest rate. Since the carrying value changes as amortization occurs, interest expense will change., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

193. If bonds are initially sold at a discount and the effective-interest method of amortization is used, interest expense will
a. be the same amount for each period.
b. be to a constant percentage of the carrying value of the bonds.
c. be the same amount whether the bonds are issued at a discount or premium.
d. be less than interest payment.

Ans: B - If bonds are initially sold at a discount and the effective interest method of amortization is used, interest expense will be constant percentage of the carrying value of the bonds., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

194. Ferrone Company issues €10,000,000, 7.8%, 20-year bonds to yield 8% on January 1, 2022. Interest is paid on June 30 and December 31. The proceeds from the bonds are €9,802,072. Ferrone uses effective-interest amortization. What amount of interest expense will Ferrone record for the June 30 payment?
a. €390,000
b. €392,083
c. €400,000
d. €784,164

Ans: B - Interest expense for the first six months is (€9,802,072 × 0.04) = €392,083., LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

195. Pontchartrain Company issues ₤20,000,000, 7.8%, 20-year bonds to yield 8% on January 1, 2022. Interest is paid on June 30 and December 31. The proceeds from the bonds are ₤19,604,145. The company uses effective-interest amortization. Interest expense reported on the 2023 income statement will total
a. ₤1,529,115
b. ₤1,560,000
c. ₤1,568,498
d. ₤1,600,000

Ans: C - Interest expense for the first 6 month period is (₤19,604,145 × 0.04) = ₤784,166. The new carrying value for the bonds is [₤19,604,145 + (₤784,166 − ₤780,000)] = ₤19,608,311. Interest expense for the second six months is (₤19,608,311 × 0.04) = ₤784,332. Total interest expense for 2023 is (₤784,166 + ₤784,332) = ₤1,568,498., LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

196. On January 1, 2022, Kimbrough Inc. issued Rs5,000,000, 9% bonds for Rs4,695,000. The market rate of interest for these bonds is 10%. Interest is payable annually on December 31. Kimbrough uses the effective-interest method of amortizing bond discount. At December 31, 2022, Kimbrough should have unamortized bond discount in the amount of

a. Rs274,500.
b. Rs285,500.
c. Rs258,050.
d. Rs255,000.

Ans: B - The discount on bonds payable is recorded at (Rs5,000,000 − Rs4,695,000) = Rs305,000 at issuance. The amortization of discount in 2022 is [Rs450,000 – (Rs4,695,000 × 0.10)] = Rs19,500 leaving a balance of Rs305,000 − Rs19,500 = Rs285,500., LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

197. On June 30, 2022, Baker Co. had outstanding 8%, A$6,000,000 face amount, 15-year bonds maturing on June 30, 2029. Interest is payable on June 30 and December 31. The unamortized balances in the bond discount account on June 30, 2022 was A$210,000. On June 30, 2022, Baker acquired all of these bonds at 94 and retired them. What net carrying amount should be used in computing gain or loss on this early extinguishment of debt?

a. A$5,940,000
b. A$5,790,000
c. A$5,730,000
d. A$5,640,000

Ans: B - The bonds' net carrying amount used to calculate the gain or loss on extinguishment is (A$6,000,000 − A$210,000) = A$5,790,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

198. On June 30, 2022, Prouty Co. had outstanding 9%, $5,000,000 face amount, 10-year bonds that pay interest semi-annually on June 30 and December 31. The unamortized balances in the bond discount account on June 30, 2022 was $200,000. On June 30, 2022, Prouty acquired all of these bonds at 101 and retired them. What amount of gain or loss would Prouty record on this early extinguishment of debt?

a. $505,000 gain
b. $300,000 loss
c. $200,000 gain
d. $250,000 loss

Ans: D - The bonds' net carrying amount is ($5,000,000 − $200,000) = $4,800,000. The loss on extinguishment is ($5,000,000 × 1.01) − $4,800,000 = $250,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

199. On January 1, 2022, Trinity Company loaned €901,560 to Litton Industries in exchange for a 3-year, zero-interest-bearing note with a face amount, €1,200,000. The prevailing rate of interest for a loan of this type is 10%. The adjusting journal entry made by Litton at December 31, 2022 with regard to the note will include a
   a. credit to Notes Payable for €90,156.
   b. debit to Interest Expense for €120,000.
   c. credit to Notes Payable for €120,000.
   d. debit to Interest Expense for €29,844.

   Ans: A - The adjusting entry made at December 31, 2022 debits Interest Expense and credits Notes Payable for (€901,560 × 0.10) = €90,156., LO: 2, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

200. All of the following statements are true regarding IFRS treatment of reporting and recognition of long term liabilities **except**
   a. IFRS allows use of straight-line amortization of discounts and premiums.
   b. liabilities are classified as current and non-current.
   c. the use of effective interest amortization.
   d. bond issue costs are netted against the carrying amount of the bonds.

   Ans: A - IFRS requires the use of effective interest amortization. Straight-line amortization is not allowed., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

201. Which of the following is **not** an example of "off-balance-sheet financing"?
   a. Non-consolidated subsidiary
   b. Special purpose entity
   c. Leases with maturities of 1 year or less
   d. Long-term leases

   Ans: C - Long-term obligations are typically the types of items that companies attempt to keep off their statement of financial position. Leases with maturities of 1 year or less are current obligations., LO: 4, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

202. Note disclosures for long-term debt generally include all of the following **except**
   a. assets pledged as security.
   b. call provisions and conversion privileges.
   c. restrictions imposed by the creditor.
   d. names of specific creditors.

   Ans: D - Note disclosures for long-term debt generally do not include the names of specific creditors., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

203. The residual interest in a corporation belongs to
a. the ordinary shareholders.
b. the preference shareholders.
c. the Board of Directors.
d. Management.

Ans: A - The residual interest in a corporation belongs to the ordinary shareholders., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: Governance, AICPA PC: None, IMA: Reporting

204. Presented below is information related to Schoenthaler Corporation.

Share Capital−Ordinary, $5 par	$1,100,000
Share Premium−Ordinary	400,000
Share Capital–Preference 5½% Stock, $100 par	1,500,000
Share Premium–Preference	500,000
Retained Earnings	2,000,000
Share Premium−Treasury	150,000

The total equity of Schoenthaler Corporation is
a. $3,650,000.
b. $5,350,000.
c. $5,650,000.
d. $5,500,000.

Ans: C - Total equity is ($1,100,000 + $400,000 + $1,500,000 + $500,000 + $2,000,000 + $150,000) = $5,650,000., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

205. Presented below is information related to Kaenzig Corporation.

Share Capital−Ordinary, ¥1 par	¥2,100,000
Share Premium−Ordinary	550,000
Share Capital–Preference 8½% Stock, ¥50 par	1,700,000
Share Premium–Preference	950,000
Retained Earnings	2,350,000
Treasury Shares (at cost)	250,000

The total equity of Kaenzig Corporation is
a. ¥2,300,000.
b. ¥5,300,000.
c. ¥7,400,000.
d. ¥7,900,000.

Ans: C - Total equity is (¥2,100,000 + ¥550,000 + ¥1,700,000 + ¥950,000 + ¥2,350,000 − ¥250,000) = ¥7,400,000. Treasury stock is a contract equity account so it is subtracted., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

206. Duszynski Company issues 20,000 shares of its £0.50 par value ordinary shares having a market value of £25 per share and 6,000 shares of its £25 par value preference shares having a market value of £50 per share for a lump sum of £750,000. The proceeds allocated to the ordinary shares is

a. £450,000
b. £468,750
c. £500,000
d. £705,000

Ans: B – The total fair value is (20,000 × £25) + (6,000 × £50), or £800,000. The portion allocated to ordinary shares is (£500,000 ÷ £800,000) × £750,000, or £468,750., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

207. Share premium is **not** affected by the issuance of

a. stated value stock.
b. par value stock.
c. no-par stock.
d. preference shares.

Ans: C - The issuance of no-par shares has no effect on share premium., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

208. Gulfport Corporation was organized in January 2022 with authorized capital of €0.0001 par value of ordinary shares. On February 1, 2022, shares were issued at par for cash. On March 1, 2022, the corporation's attorney accepted 5,000 shares of ordinary shares in settlement for legal services with a fair value of €25,250. Share Premium – Ordinary would increase on

	February 1, 2022	March 1, 2022
1.	Yes	No
2.	Yes	Yes
3.	No	No
4.	No	Yes

a. 1
b. 2
c. 3
d. 4

Ans: D -The first issuance of shares is sold at par so no additional share premium is recorded. The attorney accepted the shares at (€25,250 ÷ 5,000 shares) = €5.05 per share, a value greater than par in which share premium is recorded for the excess of proceeds over par value., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

209. Presented below is information related to Polaris Corporation's account balances:

Ordinary shares, $1 par	$10,350,000
Share Premium—Ordinary	6,520,000
Non-controlling interest	400,000
Retained Earnings	9,543,000
Dividends payable	695,000

The total contributed capital of Polaris Corporation is

a. $17,270,000.
b. $16,870,000.
c. $26,813,000.
d. $26,413,000.

Ans: B - $10,350,000 + $6,520,000 = $16,870,000. Contributed capital excludes retained earnings as it is earned capital., LO: 1, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

210. On September 14, 2022, Gayot Company reacquired 12,000 shares of its A$1 par value ordinary shares for A$40 per share. Gayot uses the cost method to account for treasury shares. The journal entry to record the reacquisition of the shares should debit

a. Treasury Shares for A$480,000.
b. Share Capital−Ordinary for A$480,000.
c. Share Capital−Ordinary for A$24,000 and Share Capital−Premium for A$456,000.
d. Treasury Shares for A$24,000.

Ans: A - Treasury Shares is debited for the cost of the shares: 12,000 × A$40 = A$480,000., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

211. Which of the following best describes a possible result of treasury share transactions by a corporation?

a. May increase but not decrease retained earnings
b. May increase net income if the cost method is used
c. May decrease but not increase retained earnings
d. May decrease but not increase net income

Ans: C - Treasury share transactions by a corporation may decrease but not increase retained earnings., LO: 2, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

212. Hise Inc., has 4,000 shares of 9%, €100 par value, cumulative preference shares and 200,000 shares of €1 par value ordinary shares outstanding at December 31, 2022, and December 31, 2021. The board of directors declared and paid a €25,000 dividend in 2021. In 2022, €74,000 of dividends are declared and paid. How much are the dividends received by the preference shareholders in 2022?

a. $11,000
b. $36,000
c. $47,000
d. $74,000

Ans: C - The annual preference dividend is (€9 × 4,000) = €36,000; dividends in arrears at December 31, 2021 would be €11,000. 2022 preferred dividends would be €11,000 + €36,000 = €47,000., LO: 3, 5, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

213. Which of the following features of preference shares makes the security more like debt than an equity instrument?
  a. Participating
  b. Voting
  c. Redeemable
  d. Noncumulative

Ans: C - Redeemable preference shares are more like debt than the other choices, as they have a mandatory redemption period the issuer cannot control., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

214. Which of the following dividends do **not** reduce total equity when declared?
  a. Liquidating dividends
  b. Cash dividends
  c. Share dividends
  d. All of these answer choices reduce total stockholders' equity.

Ans: C - All of these answer choices reduce total equity except share dividends., LO: 3, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

215. Cash dividends are paid on the basis of the number of shares
  a. authorized.
  b. issue.
  c. outstanding.
  d. outstanding less the number of treasury shares.

Ans: C - Dividends are paid on issued shares less treasury shares (or outstanding shares)., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

216. McCaffrey Corporation owned 14,000 shares of Harper Corporation's Rs5 par value ordinary shares. These shares were purchased in 2016 for Rs326,000. On May 4, 2022, McCaffrey declared a property dividend of one share of Harper for every twenty shares of McCaffrey shares held by a stockholder. On that date, when the market price of Harper was Rs34 per share, there were 280,000 shares of McCaffrey outstanding. What net reduction in retained earnings would result from this property dividend?
  a. $150,000
  b. $176,000
  c. $326,000
  d. $476,000

Ans: C - The fair value of the shares distributed is: 280,000 McCaffrey shares ÷ 20 = 14,000 shares of Harper issued, times Rs$34 current market price equals Rs$476,000. The Unrealized Holding Gain or Loss−Income account is increased by the unrealized gain of Rs$150,000 (Rs$476,000 − Rs$326,000) to restate the investment to fair value. Retained earnings is decreased by the fair value of the shares to be distributed for a net reduction of Rs$326,000, and Property Dividends Payable is increased with a debit for the same amount. LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

217. On October 31, 2022, Lexington Corp. declared and issued a 12% ordinary shares dividend. Prior to this dividend, Lexington had 302,000 shares of $0.001 par value ordinary shares issued and outstanding. The fair value of Lexington's ordinary shares was $16.75 per share on October 31, 2022. As a result of this share dividend, the company's total equity

a. increased by $36,240.
b. decreased by $5,058,198.
c. decreased by $5,058,500.
d. did not change.

Ans: D - As a result of this share dividend, Lexington's total equity did not change. It increased and decreased by the same amount as retained earnings was transferred to contributed capital., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

218. At the date of declaration of a share dividend, the entry should include

a. a credit to Dividends Payable.
b. a credit to Share Premium−Ordinary.
c. a debit to Retained Earnings.
d. a credit to Cash.

Ans: C - At the date of declaration of a share dividend, the entry should include a debit to Retained Earnings., LO: 3, Bloom: AP, Difficulty: Medium, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

219. On January 1, 2022, Vancleave Corporation had 110,000 shares of its ₤1 par value ordinary shares outstanding. On November 27, when the market price of a share was ₤8, the corporation declared a 10% share dividend to be issued to shareholders of record on December 28, 2022. What was the impact of the 10% share dividend on the balance of the retained earnings account?

a. ₤11,000 decrease
b. ₤77,000 decrease
c. ₤88,000 decrease
d. No effect

Ans: A - The amount transferred from retained earnings in a share dividend is based on the par value of the stock: (110,000 × 0.10) = 11,000 shares × ₤1 = $11,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

220. Durango Inc. had net income for 2022 of HUF2,120,000 and earnings per share on ordinary shares of HUF5. Included in the net income was HUF300,000 of bond interest expense related to its long-term debt. The income tax rate for 2022 was 30%. Dividends on preference shares were HUF400,000. The payout ratio on ordinary shares was 25%. What were the dividends on ordinary shares in 2022?

a. HUF430,000
b. HUF530,000
c. HUF482,500
d. HUF645,000

Ans: A - (HUF2,120,000 net income − HUF400,000 preference dividends) × 25% equals HUF430,000 in ordinary share dividends., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

221. Blowing Rock Inc. has 5,000 shares of 5%, $100 par value, cumulative preference shares and 30,000 shares of $1 par value ordinary shares outstanding at December 31, 2020, 2021 and 2022. There were no dividends declared in 2020. The board of directors declares and pays a $45,000 dividend in 2021 and in 2022. What is the amount of dividends received by the ordinary shareholders in 2022?

a. $15,000
b. $25,000
c. $45,000
d. $0

Ans: A - The annual preferred dividend is ($5 × 5,000) = $25,000. The $45,000 dividend payment in 2021 would leave $5,000 in arrears. In 2022, the preference shareholders would get $30,000 and the common shareholders would get $15,000., LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

222. Terpsichore Inc., has 1,000 shares of 5%, €100 par value, cumulative preference shares and 200,000 shares of €1 par value ordinary shares outstanding at December 31, 2022, and December 31, 2021. No dividends were paid in 2021. In 2022, €75,000 of dividends are declared and paid. If the preference shares is nonparticipating, what are the dividends received by the preference shareholders in 2022?

a. €5,000
b. €10,000
c. €42,500
d. €65,000

Ans: B - The annual preference dividend is (€5 × 1,000) = €5,000; dividends in arrears at December 31, 2021 would be €5,000. 2022 preference dividends would be €5,000 + €5,000 = €10,000., LO: 5, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

223. Convertible bonds

a. allow a company to issue debt financing at cheaper rates.
b. are separated into the bond component and the expense component.
c. are separated into their components based on relative fair values.
d. All of these answer choices are correct.

Ans: A - Convertible bonds allow a company to issue debt financing at cheaper rates., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

224. Convertible bonds are usually converted into

a. preference shares.
b. ordinary shares.
c. other bonds at a lower interest rate.
d. share warrants.

Ans: B - Convertible bonds are usually convertible into a specified number of ordinary shares., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

225. Mae Jong Corp issues €1,000,000 of 10% bonds payable which may be converted into 10,000 shares of €2 par value ordinary shares. The market rate of interest on similar bonds is 12%. Interest is payable annually on December 31, and the bonds were issued for total proceeds of €1,000,000. In accounting for these bonds, Mae Jong Corp. will

a. first assign a value to the equity component, then determine the liability component.
b. assign no value to the equity component since the conversion privilege is not separable from the bond.
c. use the "with-and-without" method to value the compound instrument.
d. first assign a value to the liability component based on the face amount of the bond.

Ans: C - The "with-and-without" method is used to record the compound instrument., LO: 1, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

226. In 2022, Chartres Inc. issued for $105 per share, 60,000 shares of $100 par value convertible preference shares. One preference share can be converted into three shares of Chartre's $25 par value ordinary shares at the option of the preference shareholder. In April 2022, all of the preference shares were converted into ordinary shares. The market value of the ordinary shares at the date of the conversion was $30 per share. What total amount should be credited to Share Premium–Ordinary Shares as a result of the conversion of the preference shares into ordinary shares?

a. $6,000,000
b. $6,300,000
c. $1,800,000
d. $4,500,000

Ans: C – The entry to record the issuance of the preference shares is an increase to Share Capital−Preference for $100 par × 60,000 shares, or $6,000,000, and an increase to Share Premium−Conversion Equity for $5 × 60,000 shares, or $300,000. When the shares are converted to ordinary shares, the Share Premium−Conversion Equity and the Share Capital−Preference accounts are debited for their balances, Share Capital−Ordinary is credited for $25 × 3 shares × 60,000, or $4,500,000, and the Share Premium−Ordinary account is credited for $1,830,000. LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

227. In 2022, Newton Inc. issued for ₤105 per share, 100,000 shares of ₤100 par value convertible preference shares. One preference share can be converted into three shares of Newton's $30 par value ordinary shares at the option of the preference shareholder. In August 2022, all of the preference shares was converted into ordinary shares. The market value of the ordinary shares at the date of the conversion was $32 per share. What total amount should be credited to Share Premium–Ordinary shares as a result of the conversion of the preference shares into ordinary shares?

a. ₤375,000
b. ₤780,000
c. ₤1,250,000
d. ₤1,500,000

Ans: D -The preference shares have a value of ($105 × 100,000 shares) $10,500,000. The ordinary shares have a par value of ($30 × 300,000 shares) $9,000,000. The difference, $1,500,000, represents share premium - ordinary shares., LO: 1, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

228. The issuance of warrants arises under all of the following situations **except** to

a. make different types of securities more attractive to new investors.
b. give existing shareholders a preemptive right to purchase shares.
c. provide compensation to executives.
d. give bondholders the preemptive right to purchase additional shares.

Ans: D - All of the answer choices are correct **except** to give bondholders the preemptive right to purchase shares., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

229. Lake Norman Corporation offered bonds with detachable 5-year warrants which allowed the holder to buy one ordinary share (par value A$5) at A$20 (at a time when the shares was selling for A$32). The price paid for 200, A$1,000 bonds with the warrants attached was A$205,000. The market price of the Lake Norman bonds without the warrants was A$180,000, and the market price of the warrants without the bonds was A$20,000. What amount should be allocated to the warrants?

a. A$20,000
b. A$20,500
c. A$24,000
d. A$25,000

Ans: D - The amount allocated to the warrants is: $205,000 − $180,000 = $25,000., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

230. The conversion of preference shares should be recorded by the

a. incremental method.
b. book value method.
c. fair value method.
d. par value method.

Ans: B - The conversion of preference shares may be recorded by the book value method., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

231. Compensation expense resulting from a share-based compensation plan under the fair value method is generally

a. recognized in the period of exercise.
b. recognized in the period of the grant.
c. allocated to the periods benefited by the employee's required service.
d. allocated over the periods of the employee's service life to retirement.

Ans: C - Compensation expense resulting from a compensatory shares option plan is generally allocated to the periods benefited by the employee's required service., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

232. On January 1, 2022, Western Carolina Company granted Andy Eggers, an employee, an option to buy 2,000 shares of Western Carolina Co. shares for ¥25 per share, the option exercisable for 5 years from date of grant. Using a fair value option pricing model, total compensation expense is determined to be ¥21,000. Eggers exercised his option on September 1, 2022, and sold his 2,000 shares on December 1, 2022. Quoted market prices of Western Carolina Co. shares during 2022 were

January 1	¥25 per share
September 1	¥30 per share
December 1	¥34 per share

The service period is for three years beginning January 1, 2022. As a result of the option granted to Eggers, using the fair value method, Western Carolina should recognize compensation expense for 2022 on its books in the amount of

a. ¥15,000.
b. ¥21,000.
c. ¥7,000.
d. ¥4,200.

Ans: C - The compensation expense of $21,000 over the three year service period results in an annual expense of $7,000., LO: 3, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

233. When the cash proceeds from bonds issued with detachable share warrants exceed the fair value of the bonds without the warrants, the excess should be credited to

a. Share Premium−Ordinary.
b. Share Premium−Share Warrants.
c. a share liability account.
d. Retained Earnings.

Ans: B - The excess should be credited to Share Premium−Share Warrants., LO: 2, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

234. Under the fair-value method of recording shares options, companies will report
  a. a lower compensation cost relative to the intrinsic- value method.
  b. the same compensation cost relative to the intrinsic-value method.
  c. no increase in compensation expense.
  d. a higher compensation cost relative to the intrinsic-value method.

Ans: D - The fair-value method results in greater compensation costs relative to the intrinsic-value method., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

235. Which of the following is **not** one of the commonly used shares compensation plans?
  a. Share option plans
  b. Share appreciation rights plans
  c. Restricted-share plans
  d. Share conversion plans

Ans: D - Share option plans, share appreciation rights plans, and restricted-share plans are all commonly used shares compensations plans., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

236. At December 31, 2022, Twin Rivers Company had 450,000 ordinary shares issued and outstanding, 350,000 of which had been issued and outstanding throughout the year and 100,000 of which were issued on September 1, 2022. Net income for the year ended December 31, 2022, was €1,160,000. What should be Twin Rivers' 2022 earnings per ordinary share, rounded to the nearest penny?
  a. €2.58
  b. €2.73
  c. €3.03
  d. €3.32

Ans: C - $1,160,000 ÷ [350,000 × 8/12) + (450,000 × 4/12)] = $3.03., LO: 4, Bloom: AP, Difficulty: Medium, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

237. Pesca Company had 820,000 ordinary shares outstanding on January 1, issued 360,000 shares on April 1 and purchased 24,000 shares of treasury shares on December 1. The weighted- average shares outstanding for the year is
  a. 888,000.
  b. 1,088,000.
  c. 1,156,000.
  d. 1,178,000.

Ans: B - The weighted-average shares outstanding for the year is: (820,000 × 3/12) + (1,180,000 × 8/12) + (24,000 × 1/12) = 1,088,000., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

238. In computing earnings per share for a simple capital structure, if the preference shares are cumulative, the amount that should be deducted as an adjustment to the numerator (earnings) is the
a. preference dividends in arrears.
b. preference dividends in arrears times (one minus the income tax rate).
c. annual preference dividend times (one minus the income tax rate).
d. none of these answer choices is correct.

Ans: D - In a simple capital structure, an amount equal to the dividend that should have been declared for the current year only is subtracted from net income., LO: 4, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

239. What effect will the acquisition of treasury shares have on equity and earnings per share, respectively?
a. Decrease and no effect
b. Increase and no effect
c. Decrease and increase
d. Increase and decrease

Ans: C - The acquisition of treasury shares will decrease shareholders' equity and increase earnings per share., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

240. Olive Branch Inc. had 400,000 shares of ordinary shares issued and outstanding at December 31, 2021. On July 1, 2022 an additional 200,000 shares were issued for cash. Olive Branch also had share options outstanding at the beginning and end of 2022 which allow the holders to purchase 60,000 shares of ordinary shares at $28 per share. The average market price of Olive Branch's ordinary shares was $35 during 2022. The number of shares to be used in computing diluted earnings per share for 2022 is
a. 288,000.
b. 512,000.
c. 612,000.
d. 660,000.

Ans: B - The weighted-average number of shares outstanding is: $(400{,}000 \times 6/12) + (600{,}000 \times 6/12) + [((35 - 28) \div 35) \times 60{,}000] = 512{,}000$., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

241. In the diluted earnings per share computation, the treasury shares method is used for options and warrants to reflect assumed reacquisition of ordinary shares at the average market price during the period. If the exercise price of the options or warrants exceeds the average market price, the computation would
a. fairly present diluted earnings per share on a prospective basis.
b. fairly present the maximum potential dilution of diluted earnings per share on a prospective basis.
c. reflect the excess of the number of shares assumed issued over the number of shares assumed reacquired as the potential dilution of earnings per share.
d. be antidilutive.

Ans: D - If the exercise price of the options or warrants exceeds the average market price, the computation would be antidilutive., LO: 5, Bloom: AP, Difficulty: Medium, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

242. The diluted EPS computation considers all of the following **except** the impact of
  a. convertible securities.
  b. share options.
  c. share warrants.
  d. antidilutive securities.

  Ans: D - Antidilutive securities are never considered in any EPS computation., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

243. The new standard, *Revenue from Contracts with Customers*,
  a. adopts an asset-liability approach for revenue recognition.
  b. adopts a revenue-gain approach for revenue recognition.
  c. adopts "risks and rewards" criteria.
  d. adopts criteria that deemphasize the importance of contracts with customers.

  Ans: A - The new standard, *Revenue from Contracts with Customers*, adopts an asset-liability approach for revenue recognition., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

244. The seller of a good or service should recognize revenue when
  a. it identifies the contract with customers.
  b. it identifies the separate performance obligations in the contract.
  c. it determines the transaction price.
  d. each performance obligation is satisfied.

  Ans: D - The seller of a good or service should recognize revenue when each performance obligation is satisfied., LO: 1, 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

245. One criteria that indicates the company should **disregard** revenue guidance to contracts is
  a. the contract has commercial substance.
  b. each party can unilaterally terminate the contract without compensation.
  c. each party's rights regarding the goods or services to be transferred can be identified.
  d. the payment terms for the goods and services to be transferred has been received by the party receiving the goods or services.

  Ans: B - The company should disregard revenue guidance to contracts if the contract is wholly unperformed, or if each party can unilaterally terminate the contract without compensation., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

246. Sufjan Company has a contract to sell 200 units to a customer for $14,000. After 140 units have been delivered, Sufjan modifies the contact by promising to deliver 30 more units for an additional $60 per unit (the standalone selling price at the time of the contract modification). What is the total revenue after the modification?
  a. $1,800
  b. $5,400
  c. $6,000
  d. $6,300

Ans: C - Total revenue after the modification is $6,000 [(60 × $70) + (30 × $60)]., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

247. Which type of revenue or gain is generally recognized as time passes?
  a. Revenue from sales.
  b. Revenue from fees or services.
  c. Revenue from interest, rents, and royalties.
  d. ain or loss from disposition.

Ans: C - Revenue from interest, rent, and royalties is generally recognized as time passes., LO: 1, 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

248. In determining the transaction price, the company must consider
  a. variable consideration, but not noncash consideration.
  b. noncash consideration, but not the time value of money.
  c. the time value of money, but not consideration payable.
  d. variable consideration, noncash consideration, time value of money, and consideration payable.

Ans: D - Variable consideration, noncash consideration, time value of money, and consideration payable must all be considered in determining the transaction price., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

249. Sherman Company enters into a contract with a customer to build a warehouse for €400,000, with a performance bonus of €100,000 that will be paid based on the timing of completion. The amount of the performance bonus decreases by 20% per week for every week beyond the agreed-upon completion date. The contract requirements are similar to contracts that Sherman has performed previously, and management believes that such experience is predictive for this contract. Management estimates that there is a 50% probability that the contract will be completed by the agreed-upon completion date, a 30% probability that it will be completed 1 week late, and a 20% probability that it will be completed 2 weeks late. What is the total transaction price for this revenue arrangement?
  a. €460,000
  b. €480,000
  c. €486,000
  d. €500,000

Ans: C - Total transaction price is €486,000 [(€500,000 × 50%) + (€480,000 × 30%) + (€460,000 × 20%)]., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

250. On January 1, 2022, Fulbright Company sold goods to Blue Dirt Company for ₱400,000 in exchange for a 4-year, zero-interest-bearing note with a face amount of ₱629,406 (imputed rate of 12%). The goods have an inventory cost on Fulbright's books of ₱240,000. What amount of sales revenue should Fulbright recognize in 2022?

a. ₱229,406
b. ₱240,000
c. ₱400,000
d. ₱629,406

Ans: C - Fulbright should record revenue of ₱400,000 on January 1, 2022, which is the fair value of the inventory., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

251. On January 1, 2022, Fulbright Company sold goods to Blue Dirt Company for ₱400,000 in exchange for a 4-year, zero-interest-bearing note with a face amount of ₱629,406 (imputed rate of 12%). The goods have an inventory cost on Fulbright's books of ₱240,000. What amount of Interest revenue should Fulbright recognize in 2022?

a. ₱48,000
b. ₱57,352
c. ₱75,529
d. ₱229,406

Ans: A - Fulbright should record interest revenue of ₱48,000 in 2022 (₱400,000 × 12%)., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

252. Which method of measuring the fair value of a performance obligation is dependent on the standalone selling prices of other goods or services promised in the contract?

a. Adjusted market assessment
b. Residual value
c. Expected cost plus a margin
d. Standalone selling price

Ans: B - The residual value method of measuring the fair value of a performance obligation is dependent on the standalone selling prices of other goods or services promised in the contract., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

253. Mocha purchases equipment, installation, and training from Lynne for a price of ₤1,000,000 and chooses Lynne to do the installation. Lynne charges the same price for the equipment irrespective of whether it does the installation or not. (Some companies do the installation themselves because they either prefer their own employees to do the work or because of relationships with other customers.) The price of the installation service is estimated to have a fair value of ₤20,000.

- The fair value of the training sessions is estimated at ₤40,000. Other companies can also provide these training services.
- Mocha is obligated to pay Lynne the ₤1,000,000 upon the delivery and installation of the equipment.
- Lynne delivers the equipment on May 1, 2022, and completes the installation of the equipment on July 1, 2022. Training related to the equipment starts once the installation is completed and lasts for 1 year. The equipment has a useful life of 8 years.

What amount is recorded by Lynne as Unearned Service Revenue at July 1, 2022?

a. ₤0
b. ₤18,868
c. ₤20,000
d. ₤37,736

Ans: D - Lynne should record Unearned Service Revenue of ₤37,736 at July 1, 2022 [(₤40,000 ÷ ₤1,060,000) × ₤1,000,000] related to the training., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3-4, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

254. An indication that the customer has **not** taken control of the good or service is the

a. selling company has right to payment for the good or service.
b. customer has physical possession of the asset.
c. customer has no significant risks or rewards of ownership.
d. selling company has transferred legal title to the asset.

Ans: C - When the customer has significant risks or rewards of ownership, it is an indicator that the customer has obtained control, so when the customer has **no** significant risks or rewards of ownership, it is an indication that the customer has **not** taken control of the good or service., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

255. Stossel Company sells 300 units for $200 each to Liberty Inc. for cash. Stossel allows Liberty to return any unused product within 30 days and receive a full refund. The cost of each product is $120. Stossel estimates that ten units will be returned, the costs of recovering the units will be immaterial, and the returned units are expected to be resold at a profit. What amount of sales returns and allowances should Stossel recognize in the year of the sale?

a. $2,000
b. $0
c. $800
d. $1,200

Ans: A - Stossel should recognize sales returns and allowances of $2,000 (10 × $200) as a deduction from sales revenue on its income statement., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

256. Hendrix Inc., an equipment dealer, sells equipment on January 1, 2022, to Jimi Company for ¥200,000. It agrees to repurchase this equipment from Jimi Company on December 31, 2023, for a price of ¥33,280. At January 1, 2022, Hendrix should record
a. sales revenue of ¥200,000.
b. sales revenue of ¥200,000 and a liability of ¥33,280.
c. sales revenue of ¥200,000 and interest expense of ¥33,280.
d. a liability of ¥200,000.

Ans: D - At January 1, 2022, Hendrix should record a liability of ¥200,000 because this agreement is a financing transaction and not a sale., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

257. In a bill-and-hold arrangement, which of the following is **not** one of the criteria which must be met for the customer to have obtained control of the product?
a. The reason for the bill-and-hold arrangement must be substantive.
b. The product must be physically located in the seller's warehouse.
c. The product currently must be ready for physical transfer to the customer.
d. The seller cannot have the ability to use the product or to direct it to another customer.

Ans: B - For the customer to have obtained control of a product in a bill-and-hold arrangement, all of the following criteria should be met: (a) The reason for the bill-and-hold arrangement must be substantive, (b) The product must be identified separately as belonging to the customer, (c) The product currently must be ready for physical transfer to the customer, and (d) the seller cannot have the ability to use the product or to direct it to another customer., LO: 3, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

258. In a consignment sale, the consignee
a. makes a journal entry when the consigned merchandise is received.
b. records advertising paid for the consignment as an expense.
c. records a payable when consigned merchandise is sold.
d. recognizes both commission revenue and sales revenue.

Ans: C - The consignee records a payable to the consignor, not sales revenue, when consigned merchandise is sold. The consignee will later record commission revenue., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

259. Bret Company sold 3,000 Holsks at the end of December 2022 at a total price of $12,000,000, with a warranty guarantee that the product was free of any defects. The cost of Holsks sold is $7,200,000. The term of the assurance warranty is two years, with an estimated cost of $80,000. In addition, Bret sold extended warranties related to 1,100 Holsks for 3 years beyond the 2-year period for $110,000. Bret should recognize unearned warranty revenue at December 31, 2023 of

a. $110,000.
b. $150,000.
c. $80,000.
d. $190,000.

Ans: B - Bret should record a Warranty Liability of $40,000 ($80,000 ÷ 2) on the assurance warranty, and Unearned Warranty Revenue of $110,000 on the extended warranties., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

260. On January 1, 2022, Purdy Company enters into a contract to transfer Blue and Rain to Georgia Co. for A$300,000. The contract specifies that payment for Blue will not occur until Rain is also delivered. In other words, payment will not occur until both Blue and Rain are transferred to Georgia. Purdy determines that standalone prices are A$110,000 for Blue and A$190,000 for Rain. Purdy delivers Blue to Georgia on February 10, 2022. On March 15, 2022, Purdy delivers Rain to Georgia. Purdy should record

a. accounts receivable of A$300,000 on January 1.
b. accounts receivable of A$110,000 on February 10.
c. a contract asset of A$110,000 on February 10.
d. a contract asset of A$110,000 on January 1.

Ans: C - Conditional rights to receive consideration are reported as contract assets rather than as receivables., LO: 4, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

261. When using the percentage-of-completion method, the company

a. recognizes revenues and gross profit only when the contract is completed.
b. recognizes revenues and gross profit each period during the contract.
c. accumulates construction costs only in an inventory account.
d. accumulates progress billings in an inventory account.

Ans: B - When using the percentage-of-completion method, the company recognizes revenues and gross profit each period based on the progress of the construction., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

262. A loss in the current period on a contract expected to be profitable upon completion in a later year is

a. recognized only under the zero-profit method.
b. not recognized under either the zero-profit method or the percentage-of-completion method.
c. recognized under both the zero-profit method and the percentage-of-completion method.
d. recognized only under the percentage-of-completion method.

Ans: D - The loss is recognized under the percentage-of-completion method, but is not recognized under the zero-profit method., LO: 7, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

263. Income tax expense is based on
  a. taxable income.
  b. pretax financial income.
  c. operating income.
  d. income from continuing operations.

  Ans: B - Income tax expense is based on pretax financial income., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

264. Vasquez Corp.'s 2022 income statement showed pretax accounting income of ₤2,040,000. To compute the federal income tax liability, the following 2022 data are provided.

Income from tax-exempt bonds	₤110,000
Depreciation deducted for tax purposes in excess of depreciation deducted for financial statement purposes	144,000
Estimated federal income tax payments made	330,000
Enacted corporate income tax rate	30%

  What amount of current federal income tax payable should be included in Vasquez's December 31, 2022 statement of financial position?
  a. ₤205,800
  b. ₤282,000
  c. ₤249,000
  d. ₤271,800

  Ans: A - [(₤2,040,000 − ₤110,000 − ₤144,000) × 30%] minus ₤330,000 equals ₤205,800., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

265. Weatherly Company reported the following results for the year ended December 31, 2022, its first year of operations:

Income (per books before income taxes)	$3,300,000
Taxable income	4,450,000

  The disparity between book income and taxable income is attributable to a temporary difference which will reverse in 2022. What should Weatherly report as a net deferred tax asset or liability for the year ended December 31, 2022, assuming that the enacted tax rates in effect are 35% in 2022 and 30% in 2023?
  a. $402,500 deferred tax liability
  b. $345,000 deferred tax asset
  c. $402,500 deferred tax asset
  d. $345,000 deferred tax liability

  Ans: B - ($4,450,000 less $3,300,000) × 30% results in $345,000 deferred tax asset., LO: 1, 2. Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

266. Which of the following results in deferred tax expense?
   a. Increase in a deferred tax liability
   b. Decrease in income tax expense
   c. Decrease in a deferred tax liability
   d. Increase in a deferred tax asset

   Ans: A – An increase in the deferred tax liability results in deferred tax expense., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

267. On December 31, 2022, Winston Inc. has determined that it will **not** likely realize future income to offset $240,000 of a $600,000 deferred tax asset. The journal entry to record this reduction in asset value will include a
   a. debit to Income Tax Expense for $360,000.
   b. credit to Deferred Tax Asset of $240,000.
   c. debit to Income Tax Payable of $240,000.
   d. credit to Income Tax Expense for $360,000.

   Ans: B - A company reduces a deferred tax asset when a company determines it will not realize some portion or all of the deferred asset., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

268. Schnusenberg AG incurred a net operating loss of €600,000 in 2022. The tax rate for all years is 30%. Schnusenberg has evidence that it is probable that the company will return to profitability in 2023. The company's journal entry at the end of 2022 to record the benefits of the loss carryforward will include a
   a. debit to Deferred Tax Liability for €180,000.
   b. credit a Deferred Tax Asset for €180,000.
   c. credit to Income Tax Expense for €180,000.
   d. debit to Income Tax Payable for €180,000.

   Ans: C - A company increases a deferred tax asset with a debit and credits Income Tax Expense for an operating loss carryforward if it expects to realize the deferred asset., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

269. A company has a deferred tax asset account at December 31, 2022 in the amount of $165,000 pertaining to warranty expenses, and a deferred tax liability related to a book and tax basis difference in carrying value of plant assets in the amount of $140,000. How are these amounts reported on the December 31, 2022 statement of financial position?
   a. As a net deferred tax asset of $25,000 as a non-current asset
   b. As a deferred tax liability of $140,000 as a non-current liability, and a deferred tax asset as a non-current asset
   c. As a deferred tax liability of $140,000 as a non-current liability, and a deferred tax asset as a current asset
   d. As a net deferred tax asset of $25,000 as a current asset

   Ans: A – Deferred tax assets and liabilities are netted together and the net amount is reported as non-current. A net deferred tax asset of $25,000 is reported after combining the deferred tax liability of $140,000 and the deferred tax asset of $165,000., LO: 4, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

270. Howe Corporation has income before income taxes of €1,064,000 in 2022, the company's first year of operations. The current provision for income taxes is €210,000. The year-end journal entry to record income taxes contained a debit to a deferred tax asset in the amount of €165,000. There were no deferred tax liabilities. Howe's net income for 2022 is

a. €899,000.
b. €1,019,000.
c. €689,000.
d. €854,000.

Ans: C – (€1,064,000 – (€210,000 + €165,000)) × 35%, or €689,000. Both the current year provision and the deferred tax asset representing the deferred expense portion are components of income tax expense., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

271. Parker Corporation prepared the following reconciliation for 2022, its first year of operations:

Pretax financial income for 2022	$ 2,060,000
Tax exempt interest	(350,000)
Originating temporary difference	(690,000)
Taxable income	$1,020,000

The temporary difference will reverse evenly over the next two years at an enacted tax rate of 35%. The enacted tax rate for 2022 is 30%. What amount should Parker report in its 2022 income statement as the deferred portion of the provision for income taxes and what its effect on net income?

a. $64,500 increase
b. $241,500 decrease
c. $207,000 decrease
d. $364,000 decrease

Ans: B - $690,000 × 35%, or $241,500. Because this is an increase in a deferred tax liability, it increases total income tax expense causing net income to decrease., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

272. Hopkins Corp.'s 2022 income statement showed pretax accounting income of $1,035,000. To compute the federal income tax liability, the following 2022 data are provided:

Income from exempt municipal bonds	$ 41,000
Depreciation deducted for tax purposes in excess of depreciation deducted for financial statement purposes	97,000
Estimated federal income tax payments made	159,500
Enacted corporate income tax rate	27.5%

What amount of current federal income tax liability should be included in Hopkins' December 31, 2022 statement of financial position?

a. $87,175
b. $132,578
c. $246,675
d. $163,075

Ans: A – Income taxes payable = ($1,035,000 – $41,000 – $97,000) × 27.5% = $246,675; Remaining Income Taxes Payable = $246,675 – $159,500 = $87,175., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

273. Zhang Qui has pre-tax accounting income of ¥1,800,000 and a tax rate of 35% in 2022, its first year of operations. During 2022, the company had the following transactions.

Received rent paid in advance from Barrett Co. for 2023	¥ 64,000
Municipal bond income	80,000
Depreciation for tax purposes in excess of book depreciation	40,000
Installment sales profit to be taxed in 2023	108,000

For 2022, what is the amount of income taxes payable for Zhang Qui?

a. ¥648,200
b. ¥603,400
c. ¥628,600
d. ¥572,600

Ans: D – Taxable income = ¥1,800,000 + ¥64,000 – ¥80,000 – ¥40,000 – ¥108,000 = ¥1,636,000; Income taxes payable = ¥1,636,000 × 0.35 = ¥572,600., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

274. Gulfport Corporation's taxable income differed from its accounting income computed for this past year. An item that would create a permanent difference in accounting and taxable incomes for Gulfport would be

a. a balance in the Unearned Rent account at year-end.
b. using accelerated depreciation for tax purposes and straight-line depreciation for book purposes.
c. a fine resulting from violations of employee safety regulations.
d. making installment sales during the year.

Ans: C - An item that would create a permanent difference in accounting and taxable incomes is a fine resulting from violations of employee safety regulations., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

275. Which of the following is an example of a temporary difference that is normally classified as an expense or loss and is deductible after being recognized in financial income?

a. Advance rental receipts
b. Product warranty liabilities
c. Depreciable property
d. Fines and expenses resulting from a violation of law

Ans: B - Product warranty liabilities are temporary differences normally classified as an expense or loss that are deductible after they are recognized in financial income., LO: 1, 2, Bloom: C, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

276. Pringle AG reported €200,000 in revenues in its 2022 financial statements, of which €88,000 will **not** be included in the tax return until 2022. The enacted tax rate is 40% for 2022 and 35% for 2023. What amount should Pringle report for deferred income tax liability in its statement of financial position at December 31, 2022?

a. €30,800
b. €35,200
c. €39,200
d. €44,800

Ans: A - €88,000 × 0.35 = €30,800., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

277. Tax rates other than the current tax rate may be used to calculate the deferred income tax amount on the statement of financial position if

a. it is probable that a future tax rate change will occur.
b. it appears likely that a future tax rate will be greater than the current tax rate.
c. it appears likely that a future tax rate will be less than the current tax rate.
d. the future tax rates have been substantially enacted into law.

Ans: D -Tax rates other than the current tax rate may be used to calculate the deferred income tax amount on the statement of financial position if the future rates have been substantially enacted into law., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

278. White Inc. reports a taxable and financial loss of Rs650,000 for 2022. Its pretax financial income for the last three years was as follows:

2019	Rs150,000
2020	300,000
2021	100,000

The amount that White Inc. reports as a net loss for financial reporting purposes in 2022, assuming that it uses the carryback provisions, and that the tax rate is 30% for all periods affected, is

a. a Rs550,000 loss.
b. zero.
c. a Rs485,000 loss.
d. a Rs530,000 loss.

Ans: D – The carryback loss is allowed for two years, 2020 and 2021. Rs650,000 loss less the tax benefit of ([Rs300,000 * 30%] plus [Rs100,000 * 30%]) results in a net loss of Rs455,000., LO: 6, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

279. Which of the following statements related to loss carrybacks and carryforwards is correct?
a. The benefit due to a loss carryback can be reported in both the loss year and future years.
b. The benefit due to a loss carryforward is reported only in the loss year.
c. The benefit due to a loss carryforward can be reported in both the loss year and future years.
d. The benefit due to a loss carryback is reported only in the second year preceding the loss year.

Ans: C - The benefit due to a loss carryforward is reported in both the loss year and future years., LO: 3. 6, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

280. The deferred tax expense is the
a. increase in balance of deferred tax asset minus the increase in balance of deferred tax liability.
b. increase in balance of deferred tax liability minus the increase in balance of deferred tax asset.
c. increase in balance of deferred tax asset plus the increase in balance of deferred tax liability.
d. decrease in balance of deferred tax asset minus the increase in balance of deferred tax liability.

Ans: B - Deferred tax expense is the increase in the balance of deferred tax liability minus the increase in balance of deferred tax asset., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

281. The IASB believes that the most consistent method for accounting for income taxes is the
a. temporary-permanent method.
b. carryback-carryforward method.
c. asset-liability method.
d. benefit-obligation method.

Ans: C - The IASB believes the asset-liability model to be the most consistent method for accounting for income taxes., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

282. When accounting for income taxes, the differences between IFRS and U.S. GAAP involve
a. a few exceptions to the asset-liability approach.
b. some minor differences in the recognition, measurement, and disclosure criteria.
c. differences in implementation guidance.
d. All of these answer choices are correct.

Ans: D - Differences between IFRS and U.S. GAAP involve a few exceptions to the asset-liability approach, some minor differences in the recognition, measurement, and disclosure criteria, and differences in implementation guidance., LO: 7, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

283. In a defined benefit plan, the contributions to the plan are made by
a. an independent third party.
b. the employee.
c. the employer.
d. both employee and employer.

Ans: C - In a defined benefit plan, the employer is the only party making contributions to the plan., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

284. Companies generally design pension plans that are
  a. contributory.
  b. noncontributory.
  c. insured.
  d. qualified.

Ans: D - Companies generally design qualified pension plans to take advantage of corporate income tax benefits., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

285. In a defined-benefit plan, the process of funding refers to
  a. determining the defined benefit obligation.
  b. determining the accumulated benefit obligation.
  c. making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims.
  d. determining the amount that might be reported for pension expense.

Ans: C - In a defined-benefit plan, the process of funding refers to making the periodic contributions to a funding agency to ensure that funds are available to meet retirees' claims., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

286. In a defined-contribution plan, a formula is used that
  a. defines the benefits that the employee will receive at the time of retirement.
  b. ensures that pension expense and the cash funding amount will be equal each year.
  c. determines the annual funding that an employer is required to contribute.
  d. ensures that employers are solvent enough to contribute enough funds to be available at retirement to retirees.

Ans: C - In a defined-contribution plan, a formula is used that requires an employer to contribute a certain sum each period based on the formula., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

287. The accumulated benefit obligation measures
  a. the pension obligation on the basis of the plan formula applied to years of service to date and based on existing salary levels.
  b. the pension obligation on the basis of the plan formula applied to years of service to date and based on future salary levels.
  c. an estimated total benefit at retirement and then computes the cost level that will be sufficient, together with interest expected to accumulate at the assumed rate, to provide the total benefits at retirement.
  d. the shortest possible period for funding to maximize the tax deduction.

Ans: A - The accumulated benefit obligation measures the pension obligation on the basis of the plan formula applied to years of service to date and based on existing salary levels., LO: 1, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

288. The defined benefit obligation is the measure of pension obligation that
  a. is required to be used for reporting the service cost component of pension expense.
  b. requires pension expense to be determined on the basis of the plan formula applied to years of service to date and based on existing salary levels.
  c. requires the longest possible period for funding to maximize the tax deduction.
  d. is equal to the expected plan assets less the benefits to be paid to retirees.

Ans: A - The defined benefit obligation is required to be used for reporting the service cost component of pension expense., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

289. Presented below is pension information related to Woods, Inc. for the year 2022.

Service cost	$72,000
Interest on defined benefit obligation	54,000
Interest on vested benefits	24,000
Expected return on plan assets	18,000

The amount of pension expense to be reported for 2022 is
  a. $120,000.
  b. $144,000.
  c. $162,000.
  d. $108,000.

Ans: D – Pension expense is the sum of service cost and net interest, or $72,000 + $54,000 – $18,000 = $108,000., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

290. Which of the following does the IASB argue indicates a more realistic measure of the employer's obligation under the pension plan on a going-concern basis and should be used as the basis for determining service cost?
  a. Vested benefit obligation
  b. Defined benefit obligation
  c. Accumulated benefit obligation
  d. None of these answers are correct

Ans: B - The IASB indicates that the defined benefit obligation provides a more realistic measure of the employer's obligation under the plan on a going-concern basis and, therefore, companies should use it as the basis for determining service cost., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

291. All of the following increase pension expense **except**
  a. service cost.
  b. interest on the liability.
  c. past service cost.
  d. benefits paid to retirees.

Ans: D – Benefits paid to retirees reduce the defined benefit obligation and the plan assets. Service costs and net interest cause changes in pension expense., LO: 2, 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

292. Which one of the following is **not** a component of pension expense?
  a. Expected return on plan assets
  b. Past service cost
  c. Interest on the defined benefit obligation
  d. Liability gains or losses

Ans: D - Service costs and net interest cause changes in pension expense. Liability gains and losses result from changes in the defined benefit obligation and impact Other Comprehensive Income and the defined benefit obligation., LO: 2. 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

293. The interest on the defined benefit obligation component of pension expense
  a. reflects the incremental borrowing rate of the employer.
  b. reflects the rates at which pension benefits could be effectively settled.
  c. is used to determine the actual return on plan assets.
  d. may be stated implicitly or explicitly when reported.

Ans: B - The interest on the defined benefit obligation component of pension expense reflects the rates at which pension benefits could be effectively settled., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

294.At the end of the current period, Oxford Ltd. has a defined benefit obligation of £195,000 and pension plan assets with a fair value of £110,000. The amount of the vested benefits for the plan is £105,000. What amount related to its pension plan will be reported on the company’s statement of financial position?
  a. £5,000
  b. £90,000
  c. £85,000
  d. £20,000

Ans: C – The difference between the defined benefit obligation and the fair value of the plan assets is the pension asset/liability, which is shown in the statement of financial position. £195,000 – £110,000 = £85,000., LO: 2, 4, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

295. The balance of the Pension Asset/Liability column in the pension worksheet should equal the
  13. balance of the Defined Benefit Obligation.
  14. balance of the Accumulated Pension Obligation.
  15. the funded status of the plan.
  16. balance of the Plan Assets.

Ans: C - The balance of the Pension Asset/Liability should equal the funded status of the plan., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

296. When a company adopts a pension plan, past service costs should be charged to
a. other comprehensive income (PSC).
b. operations of prior periods.
c. operations of the current period.
d. retained earnings.

Ans: C - Past service cost is charged against operations in the year created. It results from the change in the present value of the defined benefit obligation resulting from a plan amendment or a curtailment, LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

297. The unexpected gains or losses that result from changes in the defined benefit obligation are called

	Asset Gains and Losses	Liability Gains and Losses
a.	Yes	Yes
b.	No	No
c.	Yes	No
d.	No	Yes

Ans: D - The unexpected gains or losses that result from changes in the defined benefit obligation are called Liability Gains and Losses., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

298. The funded status of the pension plan is the difference between the
a. accumulated benefit obligation and the market-related asset value.
b. accumulated benefit obligation and the fair value of plan assets.
c. defined benefit obligation and the market-related asset value.
d. defined benefit obligation and the fair value of plan assets.

Ans: D - The difference between the defined benefit obligation and the fair value of plan assets is the funded status., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

299. Asset or liability gains or losses
a. are ignored in the accounting for a pension plan.
b. are recognized immediately in pension expense.
c. do not affect the funded status of the pension plan.
d. are recorded in comprehensive income.

Ans: D - Gains and losses are recorded in OCI. Asset gains and losses also impact the amount of plan assets, and liability gains and losses impact the defined benefit obligation., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

300. At January 1, 2022, Pimlico Company had plan assets of £215,000 and a defined benefit obligation of the same amount. During 2022, service cost was £27,500 and the discount rate was 10%. The actual return on plan assets was £28,000, contributions were £22,000, and benefits paid were £18,500. What is the amount of plan assets on December 31, 2022?

a. A credit balance of £265,000
b. A debit balance of £5,500
c. A debit balance of £246,500
d. A credit balance of £283,500

Ans: C - £215,000 + £28,000 + £22,000 – £18,500 = £246,500., LO: 2, 3, 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

301. Which of the following disclosures of pension plan information is normally required by IAS 19?

a. The major components of pension expense
b. The salaries and wages paid to employees covered by the pension plan
c. The funded status of the plan and the amounts recognized in the financial statements
d. The rates used in measuring the benefit amounts

Ans: C - IAS 19 does not normally address the salaries and wages paid to employees covered by the pension plan., LO: 5, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

302. Differences between pensions and postretirement benefits include all of the following **except**

a. Postretirement healthcare benefits are generally uncapped while pensions are generally well-defined.
b. Postretirement healthcare benefits are generally paid as needed and used, whereas pension benefits are generally paid monthly.
c. Postretirement healthcare benefits are generally paid only to the retiree while, pensions are generally paid to the retiree, the spouse, and other dependents.
d. Postretirement healthcare benefits are generally not funded while pensions are generally funded.

Ans: C - Postretirement healthcare benefits are paid to both the retiree, as well as the spouse, and other dependents., LO: 6, Bloom: K, Difficulty: Easy, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

303. All the following are advantages of leasing **except**
   a. leasing may permit more rapid changes in equipment.
   b. interest rates for leasing are always lower.
   c. leasing permits the write-off of the full cost of the assets.
   d. leasing may have favorable tax advantages.

   Ans: B - A disadvantage of lease is that interest rates often are higher and a profit factor may be included in addition., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

304. Major reasons why a company may become involved in leasing to other companies is (are)
   a. interest revenue.
   b. high residual values.
   c. tax incentives.
   d. All of these answers are correct.

   Ans: D - All of these answer choices are reasons why a company may become involved in leasing to other companies., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

305. Lease 1 does not contain a bargain purchase option, the lease term is equal to 70% of the estimated economic life of the leased property, the lease does not transfer ownership of the property to the lessee by the end of the lease term, and the present value of the lease payments is 90% of the fair value of the leased property.
   Lease 2 does not contain a bargain purchase option, the lease term is equal to 70% of the estimated economic life of the leased property, the lease does not transfer ownership of the property to the lessee by the end of the lease term, and the present value of the lease payments is 75% of the fair value of the leased property. The underlying asset is not of a specialized nature. How should the lessee classify these leases?

	Lease 1	Lease 2
1.	Operating lease	Financing lease
2.	Operating lease	Operating lease
3.	Financing lease	Financing lease
4.	Financing lease	Operating lease

   a. 1
   b. 2
   c. 3
   d. 4

   Ans: D – Lease 1 is a financing lease because the present value of the lease payments is 90% of the fair value of the leased property. Lease 2 does not meet any of the criteria making it an operating lease., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

306. The lessee capitalizes leased property at the
  a. present value of lease payments.
  b. asset's fair value.
  c. asset's historical cost.
  d. asset's liquidation value.

Ans: A - Fair value is the maximum amount that can be capitalized, though the present value of the lease payment is often less than fair value., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

307. Grenoble Corporation is a lessee with a financing lease. The asset is recorded at $900,000 and has an economic life of 8 years. The lease term is 5 years. The asset is expected to have a residual value of $300,000 at the end of 5 years, and a fair value of $100,000 at the end of 8 years. The lease agreement provides for the transfer of title of the asset to the lessee at the end of the lease term. What amount of depreciation expense would the lessee record for the first year of the lease?
  a. $180,000
  b. $160,000
  c. $120,000
  d. $100,000

Ans: D – Because the lessee is expected to hold the asset until the end of its useful life, it depreciates the asset over the 8-year life. ($900,000 – $100,000) ÷ 8 = $100,000., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

308. The total charges to operations over the lease term for a 2-year lease accounting for by the lessee include
  a. interest expense and lease principal payments.
  b. interest expense and depreciation expense on the leased asset.
  c. principal and interest payments.
  d. principal payments and depreciation expense on the leased asset.

Ans: B - Total charges to operations over the lease term include depreciation expense on the leased asset and interest expense on the lease obligation. Lease principal payments reduce the lease obligation, and are not an expense charged to operations., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

309. A lease that involves a manufacturer's or dealer's profit is a (an)
  a. low-value lease.
  b. manufacturer's lease.
  c. operating lease.
  d. sales-type lease.

Ans: D - A sales-type lease includes a manufacturer's or dealer's profit., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

310. Any lease that does **not** qualify as a financing lease is classified and accounted for by the lessor as a(n)
   a. sale-leaseback.
   b. residual lease.
   c. low-value lease.
   d. operating lease.

   Ans: D - If a lease is not a financing lease, then it is an operating lease., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

311. When a depreciable asset is leased under an operating lease, the lessor
   a. records depreciation over the leased asset's estimated useful life.
   b. defers depreciation until the lease expires.
   c. depreciates the leased asset over the lease term.
   d. never recognizes depreciation as ownership has been transferred.

   Ans: A - Depreciation is recognized over the asset's economic life and matched against the rental revenue., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

312. Elba Company leased machinery to Conecuh Company on January 1, 2022, for a ten-year period expiring December 31, 2031. Equal annual payments under the lease are €300,000 and are due on January 1 of each year. The first payment was made on January 1, 2022. The rate of interest used by Elba and Conecuh is 9%. The cash selling price of the machinery is €2,100,000 and the cost of the machinery on Elba's accounting records was €1,860,000. Assuming that the lease is appropriately recorded as a sale for accounting purposes by Elba, what amount of interest revenue would Elba record for the year ended December 31, 2022?
   a. €189,000
   b. €81,000
   c. €162,000
   d. €0

   Ans: C - (€2,100,000 – €300,000) × 0.09 = €162,000., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

313. Lofton Company leased machinery to Cooney Company on July 1, 2022, for a ten-year period. Equal annual payments under the lease are ¥150,000 and are due on July 1 of each year. The first payment was made on July 1, 2022. The rate of interest used by Lofton and known to Cooney is 9%. The cash selling price of the machinery is ¥1,050,000 and the cost of the machinery on Lofton's accounting records was ¥930,000. Assuming that the lease is appropriately recorded as a sale for accounting purposes by Lofton, what amount of interest expense would Cooney record for the year ended December 31, 2022?
   a. ¥94,500
   b. ¥81,000
   c. ¥40,500
   d. ¥0

   Ans: C - (¥1,050,000 – ¥150,000) × 0.09 × 6/12 = ¥40,500., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

314. Which of the following is included in determining the amount to debit to the Right-of-Use Asset account?
  a. Maintenance costs
  b. Unguaranteed residual value
  c. General administrative costs
  d. Bargain purchase option

Ans: D - The bargain purchase option is part of the lease payment and its present value is included as a debit to the Right-of-Use Asset., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

315. Athena Company has a machine with a cost of $760,000 which also is its fair market value on the date the machine is leased to Nobu Company. The lease is for 6 years and the machine is estimated to have an unguaranteed residual value of $76,000. If the lessor's interest rate implicit is 12% and the lessee is not aware of the rate, the beginning-of-the-year lease payments as determined by the lessor will be
  a. $175,486.
  b. $156,684.
  c. $148,542.
  d. $126,668.

Ans: B - [$760,000 – ($76,000 × 0.50663)] ÷ 4.60478 = $156,684. The present value of the unguaranteed residual value is subtracted from the fair value of the leased asset to determine the amount on which the annual payments will be made, LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

316. Spruce Pine Co. leased real estate to Little Switzerland Co. Assume the lease payments were made on the basis that the residual value was guaranteed. At the end of the lease term, before the lessee transfers the asset to the lessor, the leased asset and obligation accounts have the following balances.

Right-of-use asset	£112,000
Interest payable	£ 10,640
Lease liability	101,360
	£112,000

If, at the end of the lease, the fair market value of the leased asset is £61,600, what amount of gain or loss should Little Switzerland record?
  a. £45,360 gain
  b. £49,840 loss
  c. £50,400 loss
  d. £61,600 gain

Ans: C - £61,600 – £112,000 = (£50,400)., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

317. Portas Co. leased equipment to Ingalls Co. Assume the lease payments were made on the basis that the residual value was unguaranteed. At the end of the lease term, before the lessee transfers the asset to the lessor, the leased asset and obligation accounts have the following balances.

Right-of-use asset	₱56,000
Interest payable	₱ 5,320
Lease liability	50,680
	₱56,000

If, at the end of the lease, the fair market value of the residual value is ₱30,800, what gain or loss should Ingalls record?

a. ₱0
b. ₱24,920 loss
c. ₱25,200 loss
d. ₱30,800 gain

Ans: A – Because the residual value is not guaranteed, the lessee is not obligated to return the leased asset at the value estimated in the lease agreement., LO: 2 Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

318. If the residual value of a leased asset is guaranteed by a third party,

a. it is treated by the lessee as no residual value.
b. the third party is also liable for any lease payments not paid by the lessee.
c. the net investment to be recovered by the lessor is reduced.
d. it is treated by the lessee as an additional payment and by the lessor as realized at the end of the lease term.

Ans: A - If the residual value of a leased asset is guaranteed by a third party, it is treated as no lease payment by the lessee (the lessor always includes the residual value in the lease receivable)., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

319. Which of the following statements is **not** correct?
a. Initial direct costs are added to the cost of the right-of-use asset by the lessee.
b. Initial direct costs are expensed in the year of incurrence by the lessee.
c. For operating leases, a lessor defers initial direct costs and allocates over the lease term.
d. For finance leases, initial direct costs are expensed when incurred by the lessor.

Ans: B - In a financing lease, initial direct costs are added to the right-of-use asset by the lessee. The lessor expenses initial direct costs in the year of incurrence for finance leases, and defers and allocates the costs over the lease term for an operating lease., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

320. How should the lease liability be disclosed?
a. As a single amount in current liabilities
b. The amount due within one year as a current liability, and the balance as a non-current liability
c. As a single amount in non-current liabilities
d. As a deduction from the related right-of-use asset in the property, plant, and equipment section

Ans: B - The lease liability should be disclosed with the current portion in current liabilities and the remainder in non-current liabilities., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

321. All of the following are disclosures required of the lessor **except**
a. the components of the net investment in operating and financing leases as of each statement of financial position date.
b. future minimum lease payments to be received for each of the five succeeding years.
c. total contingent rentals included in income for each period for which an income statement is presented.
d. All of these answers are required disclosures.

Ans: D - The IASB requires that lessors disclose all of these items in their financial statements or notes., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

322. All of the following statements about lease accounting under IFRS are true **except**
a. Alternative measurement bases for the right-of-use asset are allowed.
b. IFRS is very similar to U.S. GAAP for lessor accounting.
c. Lessees have the option to record payments on short-term and low value leases as expenses when paid.
d. IFRS requires payments on short-term and low-value leases be recorded as expenses when paid.

Ans: D - Lessees are not required to record payments on short-term and low-value leases as expenses when paid; it is an option., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

323. Accounting changes are often made and the monetary impact is reflected in the financial statements of a company even though, in theory, this may be a violation of the accounting concept of
  a. materiality.
  b. consistency.
  c. faithful representation.
  d. objectivity.

Ans: B - In theory, this may be a violation of the accounting concept of consistency as the accounting method and approach may differ from one period to the next., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

324. Which of the following is **not** one of the three types of accounting changes?
  a. Change from average-cost to FIFO
  b. Change from an estimate of uncollectible accounts from 3% to 2%
  c. Change in the estimated useful life of an asset
  d. Correction of understated depreciation expense in a prior period

Ans: D - Errors in financial statements are not considered accounting changes, even though they necessitate changes in accounting., LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

325. What approach does the IASB require when accounting for changes in accounting policy?
  a. Cumulative
  b. Retrospective
  c. Prospective
  d. Allowance

Ans: B - The IASB requires the use of the retrospective approach for accounting policy changes., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

326. All of the following are examples of a change in accounting policy **except** a change from
  a. average-cost to FIFO inventory pricing.
  b. FIFO to average-cost.
  c. the cost-recovery method to percentage-of-completion method of accounting for construction contracts.
  d. the declining-balance method to the straight-line method of depreciation.

Ans: D - All of the options are examples of a change in accounting policy except a change from the double-declining balance method to the straight-line method of depreciation. Depreciation changes are changes in accounting estimates, LO: 1, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

327. On January 1, 2022, Columbia Corp. changed its inventory method to FIFO from average-cost for both financial and income tax reporting purposes. The change resulted in a £2,320,000 increase in the January 1, 2022 inventory. The income tax rate for all years is 25%. The cumulative effect of the accounting change should be reported by Columbia in its 2022

a. retained earnings statement as a £1,740,000 addition to the beginning balance.
b. income statement as a £2,320,000 cumulative effect of accounting change.
c. retained earnings statement as a £2,320,000 addition to the beginning balance.
d. income statement as a £1,740,000 cumulative effect of accounting change.

Ans: A - £2,320,000 × (100% – 25%) = £1,740,000., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

328. On December 31, 2022, Paiva, Inc. appropriately changed its inventory costing method to average-cost from FIFO for financial statement and income tax purposes. The change will result in a $1,480,000 increase in the beginning inventory at January 1, 2022. The company's income tax rate is 35%. The cumulative effect of this accounting change on beginning retained earnings is

a. $0.
b. $518,000.
c. $962,000.
d. $1,480,000.

Ans: C - $1,480,000 × (100% – 35%) = $962,000., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

329. On December 31, 2022, Dodd, Inc. appropriately changed the company's method of accounting for long-term construction contracts from the percentage-of-completion method to the cost recovery method for financial statement and income tax purposes. The change will result in a €2,300,000 decrease in the beginning Construction in Process at January 1, 2022. Assume a 30% income tax rate. The cumulative effect of this accounting change on the Deferred Tax Liability account is

a. a decrease of €690,000.
b. an increase of €690,000.
c. a decrease of €1,610,000.
d. an increase of €2,300,000.

Ans: A - €2,300,000 × 30% = €690,000., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

330. A change to FIFO inventory valuation from any other acceptable inventory valuation method

a. requires restatement of all prior years' income statements presented.
b. requires retrospective error correction.
c. requires prospective reporting.
d. is accounted for as an adjustment to beginning retained earnings.

Ans: A - Restatement is required for all prior years' income statements presented., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

331. Which type of accounting change should always be accounted for in current and future periods?
a. Change in accounting policy
b. Change in reporting entity
c. Change in accounting estimate
d. Correction of an error

Ans: C - A change in an accounting estimate should always be accounted for in current and future periods., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

332. When a company changes from an accelerated method to the straight-line method of depreciation, this change should be handled as a
a. change in accounting policy.
b. change in accounting estimate.
c. prior period adjustment.
d. correction of an error.

Ans: B - When a company changes from an accelerated balance method to the straight-line method of depreciation, this change should be handled as a change in accounting estimate., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

333. Whenever it is impossible to determine whether a change in policy or a change in estimate has occurred, the change should be considered a
a. change in policy.
b. correction of an error.
c. change in estimate.
d. counterbalancing error.

Ans: C - Whenever it is impossible to determine the type of change that has occurred, it is to be considered a change in estimate., LO: 2, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

334. An indirect effect of a change in accounting policy is
a. reported in a deferred income tax account.
b. a change to current or future cash flows that results from making a change in accounting policy.
c. reported as a correction of an error.
d. a change in an amount to be accrued during a period.

Ans: B – An indirect effect relates to a change in accounting policy and is a change to current or future cash flows that results from making a change in accounting policy applied retrospectively. IFRS is silent on the accounting treatment., LO: 1, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

335. In 2021, PWT Company failed to record depreciation expense on some of its assets. When the error is discovered in 2022, it will be accounted for
a. retrospectively.
b. prospectively.
c. as a prior period adjustment.
d. as a policy change.

Ans: C – An error correction is recorded as a prior period adjustment., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

336. Koppernaes Inc. is a calendar-year corporation. Its financial statements for the years ended December 31, 2021 and 2022 contained the following errors.

	2021	2022
Ending inventory	¥23,000 overstatement	¥52,000 understatement
Depreciation expense	19,000 understatement	42,000 overstatement

Assume that the 2021 errors were not corrected and that no errors occurred in 2020. By what amount will 2022 income before income taxes be overstated or understated?

a. ¥3,000 understatement
b. ¥29,000 overstatement
c. ¥52,000 understatement
d. ¥6,000 understatement

Ans: A - ¥23,000 − ¥42,000 + ¥22,000 = ¥3,000 understatement., LO: 3. 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

337. Chalet Inc. is a calendar-year corporation. Its financial statements for the years ended December 31, 2021 and 2022 contained the following errors.

	2021	2022
Ending inventory	$11,000 understatement	$14,000 overstatement
Advertising expense	9,500 overstatement	11,500 understatement

Assume that the 2021 errors were not corrected and that no errors occurred in 2020. By what amount will the December 31, 2022 retained earnings balance be overstated or understated?

a. $20,500 understatement
b. $27,000 overstatement
c. $7,000 overstatement
d. $16,000 overstatement

Ans: A - $14,000 + $11,500 − $9,500 = $16,000 overstatement., LO: 3, 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

338. On July 1, 2021, Elbert Corp. acquired equipment at a cost of $1,020,000. It is to be depreciated on the straight-line method over a four-year period with no residual value. Because of a bookkeeping error, no depreciation was recognized in Elbert's 2021 financial statements. The oversight was discovered during the preparation of Elbert's 2022 financial statements. Which of the following accounts will **not** be affected by correcting the error that occurred in 2021, assuming comparative financial statements are not prepared?

a. Depreciation Expense
b. Accumulated Depreciation
c. Retained Earnings
d. All of these accounts will be affected.

Ans: A - Only depreciation expense will be unaffected by the correction. The entry to correct the error is a debit to Retained Earnings and a credit to Accumulated Depreciation−Equipment for the amount that should have been recorded as depreciation: ($1,020,000 ÷ 4) = $255,000., LO: 3, Bloom: AP, Difficulty: Moderate, Min: 3, 4, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

339. Which of the following is a reason why companies prefer certain accounting methods?
   a. Bonus payments
   b. Asset structure
   c. Comparability
   d. Asset allocation

   Ans: A - Companies prefer certain accounting methods for bonus payments among other issues., LO: 3, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

340. Which of the following is a non-counterbalancing error?
   a. Failure to record accrued wages
   b. Failure to record depreciation
   c. Failure to record prepaid expenses
   d. Understatement of unearned revenue

   Ans: B - Errors that are not offset in the next accounting period are non-counterbalancing errors., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

341. All of the following involve counterbalancing errors **except** the
   a. failure to record prepaid expenses.
   b. failure to adjust for bad debts.
   c. understatement of inventory.
   d. overstatement of purchases.

   Ans: B - Failure to adjust for bad debts is a non-counterbalancing error., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

342. All of the following involve counterbalancing errors **except** the
   a. failure to record prepaid expenses.
   b. failure to record patent amortization.
   c. overstatement of ending inventory.
   d. understatement of purchases.

   Ans: B - All of the options involve counterbalancing errors except the failure to record depreciation., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

Multiple Choice

343. The primary purpose of the statement of cash flows is to provide
   a. cash-basis information concerning the operating, investing, and financing activities of an entity during a period.
   b. information that is useful in assessing cash flow prospects.
   c. Information about the cash receipts and cash payments of an entity during a period.
   d. Information about the entity's ability to meet its obligations, its ability to pay dividends, and its needs for external financing.

   Ans: C - The primary purpose of the statement of cash flows is to provide information about the cash receipts and cash payments of an entity during a period., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

344. Which of the following is never classified as a financing cash flow**?**
  a. Purchases of treasury shares
  b. Proceeds from the sale of an equity investment
  c. Interest paid on long-term debt
  d. Dividends paid on preferred shares

Ans: B – Proceeds from the sale of an equity investment is an investing activity. Interest paid on long-term debt can be classified as either an operating or financing cash flow., LO: 1, 6, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

345. Activities involving the cash effects of transactions that enter into the determination of net income are
  a. financing activities.
  b. investing activities.
  c. noncash investing and financing activities.
  d. operating activities.

Ans: D - Operating activities involve the cash effects of transactions that enter into the determination of net income., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

346. All of the following must be classified as investing activities **except**
  a. the purchase of equipment for cash.
  b. the sale of land for cash.
  c. a purchase of 25% interest in the shares of a supplier.
  d. the receipt of cash dividends from investments.

Ans: D - The receipt of dividends from investments can be classified as an investing or an operating activity., LO: 1, 6, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

347. Net cash flow from operating activities is determined by eliminating
  a. earned revenues from net income.
  b. incurred expenses from net income.
  c. cash expenses and cash revenues from net income.
  d. noncash expenses and noncash revenues from net income.

Ans: D - Eliminating noncash expenses and noncash revenues from net income produces net cash flow from operating activities., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

348. To arrive at net cash provided by operating activities, it is necessary to report revenues and expenses on a cash basis. This is done by

a. listing all income statement transactions that directly affect cash in a worksheet.
b. subtracting all increases in current liability accounts and adding all decreases in current asset accounts from net income.
c. eliminating the effects of income statement transactions that did not result in a corresponding increase or decrease in cash.
d. listing all transactions that increase sales revenue, and separately list all those transactions that increase expense accounts.

Ans: C - This is done by eliminating the effects of income statement transactions that did not result in a corresponding increase or decrease in cash., LO: 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

349. The method of calculating net cash flow from operating activities that results in the presentation of a condensed cash receipts and cash disbursements statement is the

a. reconciliation method.
b. indirect method.
c. direct method.
d. cash flow method.

Ans: C - The direct method results in presenting condensed cash receipts and cash disbursements statement., LO: 3, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

350. Which method adjusts net income for items that affected reported net income but did **not** affect cash?

a. Direct
b. Adjustment
c. Accrual
d. Indirect

Ans: D - The indirect method starts with net income and then adjusts it for noncash items that affected net income., LO: 2, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

351. Spruce Pine Co. provided the following information on selected transactions during 2022.

Repayment of bond principal	¥450,000
Proceeds from issuing ordinary shares	760,000
Purchases of inventory	940,000
Proceeds from the sale of treasury shares	120,000
Purchase of 10% interest in shares of Hindi Corp.	220,000
Dividends paid to ordinary & preference shareholders	80,000
Proceeds from issuing preference shares	150,000
Proceeds from sale of land	380,000

The net cash provided (used) by investing activities during 2022 is

a. ¥140,000.
b. ¥160,000.
c. ¥280,000.
d. ¥(780,000).

Ans: B - ¥(220,000) + ¥380,000 = ¥160,000., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

352. Mazzeo Co. provided the following information on selected transactions during 2022.

Purchase of land by issuing bonds	$650,000
Proceeds from issuing ordinary shares	520,000
Purchases of inventory	950,000
Purchases of treasury shares	350,000
Loans made to affiliated corporations	175,000
Dividends paid to preference shares	100,000
Proceeds from issuing preference shares	210,000
Proceeds from sale of land	325,000

The net cash provided (used) by investing activities during 2022 is

a. $150,000.
b. $(500,000).
c. $(325,000).
d. $(900,000).

Ans: A - $325,000 – $175,000 = $150,000., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

353. Ando Company sold some of its plant assets during 2022. The original cost of the plant assets was €500,000 and the accumulated depreciation at date of sale was €325,000. The proceeds from the sale of the plant assets were €150,000. The information concerning the sale of the plant assets should be shown on Caraway's statement of cash flows (indirect method) for the year ended December 31, 2022, as

a. a subtraction from net income of €150,000 and a €175,000 increase in cash flows from financing activities.
b. an addition to net income of €25,000 and a €175,000 increase in cash flows from investing activities.
c. an addition to net income of €25,000 and a €150,000 increase in cash flows from investing activities.
d. an addition of €150,000 to net income.

Ans: C – A loss of €25,000 is added to net income in the operating activities section (€150,000 – (€500,000 – €325,000), and the proceeds of €150,000 is reported as an investing activity., LO: 1, 2, 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

354. Acquiring land and a building by issuing ordinary shares are reported as

a. an investing activity.
b. a financing activity.
c. both an investing activity and a financing activity.
d. a noncash investing and financing activity.

Ans: D - Acquiring assets by issuing equity securities would be reported as a noncash investing and financing activity., LO: 4, Bloom: C, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

355. Anna Maria Island Co. provided the following information on selected transactions during 2022.

Purchase of land by issuing bonds	A$1,550,000
Proceeds from sale of land	925,000
Proceeds from issuing bonds	1,900,000
Purchases of inventory	2, 975,000
Purchases of treasury shares	190,000
Loans made to affiliated corporations	525,000
Dividends paid to preference shareholders	120,000
Proceeds from issuing preference shares	325,000
Proceeds from sale of equipment	650,000

The net cash provided by financing activities during 2022 is

a. A$1,725,000.
b. A$1,915,000.
c. A$2,040,000.
d. A$2,465,000.

Ans: B - A$1,900,000 – A$190,000 – A$120,000 + A$325,000 = A$1,915,000., LO: 1, 2, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

356. All of the following adjustments are deducted in determining net cash flow from operating activities **except**

a. amortization of bond premium.
b. decrease in deferred income tax liability.
c. gain on sale of plant assets.
d. increase in accrued liabilities.

Ans: D - All of the options are deducted in determining net cash flow from operating activities except an increase in accrued liabilities., LO: 3, 4, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

357. Mott Company sold some of its plant assets during 2022. The original cost of the plant assets was ₤1,500,000 and the accumulated depreciation at date of sale was ₤1,300,000. The proceeds from the sale of the plant assets were ₤310,000. The information concerning the sale of the plant assets should be shown on Mott's statement of cash flows prepared using the indirect method for the year ended December 31, 2022, as

a. a subtraction from net income of ₤110,000 and a ₤200,000 increase in cash flows from financing activities.
b. an addition to net income of ₤110,000 and a ₤310,000 increase in cash flows from investing activities.
c. a subtraction from net income of ₤110,000 and a ₤310,000 increase in cash flows from investing activities.
d. an addition of ₤310,000 to net income.

Ans: C – A gain of ₤110,000 is subtracted from net income in the operating activities section (₤310,000 – (₤1,500,000 – ₤1,300,000), and the proceeds of ₤310,000 is shown in the investing activities section., LO: 1, 2, 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

358. An analysis of the machinery accounts of Newport Company for 2022 is as follows.

	Machinery	Accumulated Depreciation	Machinery, net of Accumulated Depreciation
Balance at January 1, 2022	$1,600,000	$850,000	$750,000
Purchases of new machinery in 2022 for cash	450,000		450,000
Depreciation in 2022		250,000	(250,000)
Balance at December 31, 2022	$2,050,000	$1,100,000	$950,000

The information concerning Newport's machinery accounts should be shown in Newport's statement of cash flows (indirect method) for the year ended December 31, 2022, as

a. a subtraction from net income of $450,000 and a $250,000 decrease in cash flows from investing activities.
b. an addition to net income of $250,000 and a $450,000 decrease in cash flows from investing activities.
c. a $450,000 increase in cash flows from investing activities.
d. a $200,000 increase in cash flows from investing activities.

Ans: B - The information should be shown as an addition to net income of $250,000 for depreciation, a non-cash amount, and a $450,000 decrease in cash flows from investing activities for the cost of purchasing the machinery., LO: 1, 3,. 4, Bloom: AP, Difficulty: Moderate, Min: 3, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

359. The sources of information used to prepare the statement of cash flows includes all of the following **except**

a. comparative statements of financial position.
b. the prior and current year's income statement.
c. the current year's retained earnings statement.
d. other selected transaction data.

Ans: B - The sources of information include all of the options except the prior year's income statement., LO: 1, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

360. Which of the following statements related to a worksheet used for the preparation of a statement of cash flows is **not** correct?

a. Accounts with debit balances are listed separately from those with credit balances in the statement of financial position accounts section.
b. Inflows of cash are entered as debits and outflows as credits in the reconciling columns.
c. The reconciling items shown in the worksheet are entered in a journal and posted to the appropriate accounts.
d. The bottom portion of the worksheet consists of the operating, investing, and financing activities sections.

Ans: C - The reconciling items shown in the worksheet are not journalized or posted., LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

361. A statement of cash flows typically would **not** disclose the effects of

a. ordinary shares issued at an amount greater than par value.
b. share dividends declared.
c. cash dividends paid.
d. a purchase and immediate retirement of treasury shares.

Ans: B - A statement of cash flows typically would not disclose the effects of share dividends declared., LO: 4, Bloom: K, Difficulty: Easy, Min: 1, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting

362. Which of the following statements related to a worksheet used for preparation of the statement of cash flows is correct?

a. Accounts in the statement of financial position accounts section are listed in the same order as presented in the statement of financial position.
b. Inflows of cash are entered as debits and outflows of cash are entered as credits in the reconciling columns.
c. The reconciling items shown in the work sheet are entered in a journal and posted to appropriate accounts.
d. Non-cash amounts are omitted from the worksheet.

Ans: B - Reconciling items are not entered in any journal or posted to any account. These items do not represent either adjustments or corrections of the statement of financial position accounts. They are used only to facilitate the preparation of the statement of cash flows., LO: 5, Bloom: AP, Difficulty: Moderate, Min: 2, AICPA FC: Reporting, AICPA BC: None, AICPA PC: None, IMA: Reporting