



Following are multiple choice questions recently released by the AICPA. These questions were released by the AICPA with letter answers only. Our editorial board is currently working on providing detailed explanations for these questions, so please check back to the Becker Knowledgebase soon for the updated file.

Please note that the AICPA generally releases questions that it does NOT intend to use again. These questions and content may or may not be representative of questions you may see on any upcoming exams.

1. CPA-

For the year ended December 31, Ion Corp. had cash inflows of \$25,000 from the purchases, sales, and maturities of held-to-maturity securities and \$40,000 from the purchases, sales, and maturities of available-for-sale securities. What amount of net cash from investing activities should Ion report in its cash flow statement?

- a. \$0
- b. \$25,000
- c. \$40,000
- d. \$65,000

Explanation

Choice "d" is correct.

2. CPA-

Harland County received a \$2,000,000 capital grant to be equally distributed among its five municipalities. The grant is to finance the construction of capital assets. Harland had no administrative or direct financial involvement in the construction. In which fund should Harland record the receipt of cash?

- a. Agency fund.
- b. General fund.
- c. Special revenue fund.
- d. Private purpose trust fund.

Explanation

Choice "a" is correct.

3. CPA-

Which of the following funds should be reported as part of local government's governmental activities column in its government-wide statements?

- a. Debt service.
- b. Agency.
- c. Private-purpose trust.
- d. Pension trust.

Explanation

Choice "a" is correct.

4. CPA-

Young Corp. purchased equipment by making a down payment of \$4,000 and issuing a note payable for \$18,000. A payment of \$6,000 is to be made at the end of each year for three years. The applicable rate of interest is 8%. The present value of an ordinary annuity factor for three years at 8% is 2.58, and the present value for the future amount of a single sum of one dollar for three years at 8% is .735. Shipping charges for the equipment were \$2,000, and installation charges were \$3,500. What is the capitalized cost of the equipment?

- a. \$19,480
- b. \$21,480
- c. \$24,980
- d. \$27,500

Explanation

Choice "c" is correct.

5. CPA-

Jordan Co. had the following gains during the current period:

Gain on disposal of business segment	\$500,000
Foreign currency translation gain	100,000

What amount of extraordinary gain should be presented on Jordan's income statement for the current period?

- a. \$0
- b. \$100,000
- c. \$500,000
- d. \$600,000

Explanation

Choice "a" is correct.

6. CPA-

A foreign subsidiary's functional currency is its local currency, which has not experienced significant inflation. The weighted average exchange rate for the current year would be the appropriate exchange rate for translating

	<u>Salaries expense</u>	<u>Sales to external customers</u>
a.	Yes	Yes
b.	Yes	No
c.	No	Yes
d.	No	No

Explanation

Choice "a" is correct.

7. CPA-

Asp Co. appropriately uses the installment method of revenue recognition to account for its credit sales. The following information was abstracted from Asp's December 31, 2002, financial statements:

	<u>2002</u>	<u>2001</u>
Sales	\$1,500,000	\$1,000,000
Accounts receivable:		
2002 sales	900,000	
2001 sales	540,000	600,000
Deferred gross profit:		
2002 sales	252,000	
2001 sales	108,000	120,000

What was Asp's gross profit percentage for 2002 sales?

- a. 20%
- b. 25%
- c. 28%
- d. 40%

Explanation

Choice "c" is correct.

8. CPA-

Brass Co. reported income before income tax expense of \$60,000 for 2000. Brass had no permanent or temporary timing differences for tax purposes. Brass has an effective tax rate of 30% and a \$40,000 net operating loss carryforward from 1999. What is the maximum income tax benefit that Brass can realize from the loss carryforward for 2000?

- a. \$12,000
- b. \$18,000
- c. \$20,000
- d. \$40,000

Explanation

Choice "a" is correct.

9. CPA-

A company reports the following information as of December 31:

Sales revenue	\$800,000
Cost of goods sold	600,000
Operating expenses	90,000
Unrealized holding gain on available-for-sale securities, net of tax	30,000

What amount should the company report as comprehensive income as of December 31?

- a. \$30,000
- b. \$110,000
- c. \$140,000
- d. \$200,000

Explanation

Choice "c" is correct.

10. CPA-

Ajax Corp. has an effective tax rate of 30%. On January 1, 2000, Ajax purchased equipment for \$100,000. The equipment has a useful life of 10 years. What amount of current tax benefit will Ajax realize during 2000 by using the 150% declining balance method of depreciation for tax purposes instead of the straight-line method?

- a. \$1,500
- b. \$3,000
- c. \$4,500
- d. \$5,000

Explanation

Choice "a" is correct.

11. CPA-

Carr, Inc. purchased equipment for \$100,000 on January 1, 2002. The equipment had an estimated 10-year useful life and a \$15,000 salvage value. Carr uses the 200% declining balance depreciation method. In its 2003 income statement, what amount should Carr report as depreciation expense for the equipment?

- a. \$13,600
- b. \$16,000
- c. \$17,000
- d. \$20,000

Explanation

Choice "b" is correct.

12. CPA-

Which of the following characteristics relates to both accounting relevance and reliability?

- a. Verifiability.
- b. Timeliness.
- c. Neutrality.
- d. Comparability.

Explanation

Choice "d" is correct.

13. CPA-

Lion Co.'s income statement for its first year of operations shows pretax income of \$6,000,000. In addition, the following differences existed between Lion's tax return and records:

	<i>Tax return</i>	<i>Accounting records</i>
Uncollectible accounts expense	\$220,000	\$250,000
Depreciation expense	860,000	570,000
Tax-exempt interest revenue	—	50,000

Lion's current year tax rate is 30% and the enacted rate for future years is 40%. What amount should Lion report as deferred tax expense in its income statement for the year?

- a. \$148,000
- b. \$124,000
- c. \$104,000
- d. \$78,000

Explanation

Choice "c" is correct.

14. CPA-

Rue Co.'s allowance for uncollectible accounts had a credit balance of \$12,000 at December 31, 2002. During 2003, Rue wrote-off uncollectible accounts of \$48,000. The aging of accounts receivable indicated that a \$50,000 allowance for uncollectible accounts was required at December 31, 2003. What amount of uncollectible accounts expense should Rue report for 2003?

- a. \$48,000
- b. \$50,000
- c. \$60,000
- d. \$86,000

Explanation

Choice "d" is correct.

15. CPA-

A company has the following accrual-basis balances at the end of its first year of operation:

Unearned consulting fees	\$ 2,000
Consulting fees receivable	3,500
Consulting fee revenue	25,000

The company's cash-basis consulting revenue is what amount?

- a. \$19,500
- b. \$23,500
- c. \$26,500
- d. \$30,500

Explanation

Choice "b" is correct.

16. CPA-

During the current year, Onal Co. purchased 10,000 shares of its own stock at \$7 per share. The stock was originally issued at \$6. The firm sold 5,000 of the treasury shares for \$10 per share. The firm uses the cost method to account for treasury stock. What amount should Onal report in its income statement for these transactions?

- a. \$0
- b. \$5,000 gain.
- c. \$10,000 loss.
- d. \$15,000 gain.

Explanation

Choice "a" is correct.

17. CPA-

A nongovernmental not-for-profit organization's statement of activities is similar to which of the following for-profit financial statements?

- a. Balance sheet.
- b. Statement of cash flows.
- c. Statement of retained earnings.
- d. Income statement.

Explanation

Choice "d" is correct.

18. CPA-

After an impairment loss is recognized, the adjusted carrying amount of the intangible asset shall be its new accounting basis. Which of the following statements about subsequent reversal of a previously recognized impairment loss is correct?

- a. It is prohibited.
- b. It is required when the reversal is considered permanent.
- c. It must be disclosed in the notes to the financial statements.
- d. It is encouraged, but not required.

Explanation

Choice "a" is correct.

19. CPA-

Tang City received land from a donor who stipulated that the land must remain intact, but any income generated from the property may be used for general government services. In which fund should Tang City record the donated land?

- a. Special revenue.
- b. Permanent.
- c. Private-purpose trust.
- d. Agency.

Explanation

Choice "b" is correct.

20. CPA-

When would a company use the installment sales method of revenue recognition?

- a. When collectibility of installment accounts receivable is reasonably predictable.
- b. When repossessions of merchandise sold on the installment plan may result in a future gain or loss.
- c. When installment sales are material, and there is no reasonable basis for estimating collectibility.
- d. When collection expenses and bad debts on installment accounts receivable are deemed to be immaterial.

Explanation

Choice "c" is correct.

21. CPA-

On January 1, Feld traded a delivery truck and paid \$10,000 cash for a tow truck owned by Baker. The delivery truck had an original cost of \$140,000, accumulated depreciation of \$80,000, and an estimated fair value of \$90,000. Feld estimated the fair value of Baker's tow truck to be \$100,000. The transaction had commercial substance. What amount of gain should be recognized by Feld?

- a. \$0
- b. \$3,000
- c. \$10,000
- d. \$30,000

Explanation

Choice "d" is correct.

22. CPA-

Which of the following is reported as interest expense?

- a. Pension cost interest.
- b. Amortization of discount of a note.
- c. Deferred compensation plan interest.
- d. Interest incurred to finance a software development for internal use.

Explanation

Choice "b" is correct.

23. CPA-

How should a nongovernmental not-for-profit organization report depreciation expense in its statement of activities?

- a. It should not be included.
- b. It should be included as a decrease in unrestricted net assets.
- c. It should be included as an increase in temporarily restricted net assets.
- d. It should be reclassified from unrestricted net assets to temporarily restricted net assets, depending on donor-imposed restrictions on the assets.

Explanation

Choice "b" is correct.

24. CPA-

Willem Co. reported the following liabilities at December 31, 2001:

Accounts payable-trade	\$ 750,000
Short-term borrowings	400,000
Mortgage payable, current portion \$100,000	3,500,000
Other bank loan, matures June 30, 2002	1,000,000

The \$1,000,000 bank loan was refinanced with a 20-year loan on January 15, 2002, with the first principal payment due January 15, 2003. Willem's audited financial statements were issued February 28, 2002. What amount should Willem report as current liabilities at December 31, 2001?

- a. \$850,000
- b. \$1,150,000
- c. \$1,250,000
- d. \$2,250,000

Explanation

Choice "c" is correct.

25. CPA-

Arkin Corp. is a nongovernmental not-for-profit organization involved in research. Arkin's statement of functional expenses should classify which of the following as support services?

- a. Salaries of staff researchers involved in research.
- b. Salaries of fundraisers for funds used in research.
- c. Costs of equipment involved in research.
- d. Costs of laboratory supplies used in research.

Explanation

Choice "b" is correct.

26. CPA-

Ian Co. is calculating earnings per share amounts for inclusion in the Ian's annual report to shareholders. Ian has obtained the following information from the controller's office as well as shareholder services:

Net income from January 1 to December 31	\$125,000
Number of outstanding shares:	
January 1 to March 31	15,000
April 1 to May 31	12,500
June 1 to December 31	17,000

In addition, Ian has issued 10,000 incentive stock options with an exercise price of \$30 to its employees and a year-end market price of \$25 per share. What amount is Ian's diluted earnings per share for the year ended December 31?

- a. \$4.63
- b. \$4.85
- c. \$7.35
- d. \$7.94

Explanation

Choice "d" is correct.

27. CPA-

Green Co. had the following equity transactions at December 31:

Cash proceeds from sale of investment in Blue Co. (carrying value - \$60,000)	\$75,000
Dividends received on Grey Co. stock	10,500
Common stock purchased from Brown Co.	38,000

What amount should Green recognize as net cash from investing activities in its statement of cash flows at December 31?

- a. \$37,000
- b. \$47,500
- c. \$75,000
- d. \$85,500

Explanation

Choice "a" is correct.

28. CPA-

A company has a long-lived asset with a carrying value of \$120,000, expected future cash flows of \$130,000, present value of expected future cash flows of \$100,000, and a market value of \$105,000. What amount of impairment loss should be reported?

- a. \$0
- b. \$5,000
- c. \$15,000
- d. \$20,000

Explanation

Choice "a" is correct.

29. CPA-

When the allowance method of recognizing uncollectible accounts is used, how would the collection of an account previously written off affect accounts receivable and the allowance for uncollectible accounts?

	<u>Accounts receivable</u>	<u>Allowance for uncollectible accounts</u>
a.	Increase	Decrease
b.	Increase	No effect
c.	No effect	Decrease
d.	No effect	Increase

Explanation

Choice "d" is correct.

30. CPA-

During 2004, a former employee of Dane Co. began a suit against Dane for wrongful termination in November 2003. After considering all of the facts, Dane's legal counsel believes that the former employee will prevail and will probably receive damages of between \$1,000,000 and \$1,500,000, with \$1,300,000 being the most likely amount. Dane's financial statements for the year ended December 31, 2003, will not be issued until February 2004. In its December 31, 2003, balance sheet, what amount should Dane report as a liability with respect to the suit?

- a. \$0
- b. \$1,000,000
- c. \$1,300,000
- d. \$1,500,000

Explanation

Choice "c" is correct.

31. CPA-

Which format must an enterprise fund use to report cash flow operating activities in the statement of cash flows?

- a. Indirect method, beginning with operating income.
- b. Indirect method, beginning with change in net assets.
- c. Direct method.
- d. Either direct or indirect method.

Explanation

Choice "c" is correct.

32. CPA-

Nack City received a donation of a valuable painting. Nack planned to add the painting to its collection and display it in the protected exhibition area of city hall. Nack had a policy that if such donated art works were sold, the proceeds would be used to acquire other items for its collections. Which of the following would be correct regarding the donated painting?

- a. Must be capitalized and depreciated.
- b. Must be capitalized but not depreciated.
- c. May be capitalized, but it is not required, and it must be depreciated.
- d. May be capitalized, but it is not required, and depreciation is not required.

Explanation

Choice "d" is correct.

33. CPA-

Which of the following not-for-profit entities is required to prepare a statement of functional expense?

- a. An art museum.
- b. A shelter for the homeless.
- c. A private foundation.
- d. A public golf course.

Explanation

Choice "b" is correct.

34. CPA-

On January 1, Stunt Corp. had outstanding convertible bonds with a face value of \$1,000,000 and an unamortized discount of \$100,000. On that date, the bonds were converted into 100,000 shares of \$1 par stock. The market value on the date of conversion was \$12 per share. The transaction will be accounted for with the book value method. By what amount will Stunt's stockholders' equity increase as a result of the bond conversion?

- a. \$100,000
- b. \$900,000
- c. \$1,000,000
- d. \$1,200,000

Explanation

Choice "b" is correct.

35. CPA-

During the current year, Wythe County levied \$2,000,000 property taxes, 1% of which is expected to be uncollectible. During the year, the county collected \$1,800,000 and wrote off \$15,000 as uncollectible. What amount should Wythe County report as property tax revenue in its government-wide statement of activities for the current year?

- a. \$1,800,000
- b. \$1,980,000
- c. \$1,985,000
- d. \$2,000,000

Explanation

Choice "b" is correct.

36. CPA-

On December 1 of the current year, Bann Co. entered into an option contract to purchase 2,000 shares of Norta Co. stock for \$40 per share (the same as the current market price) by the end of the next two months. The time value of the option contract is \$600. At the end of December, Norta's stock was selling for \$43, and the time value of the option is now \$400. If Bann does not exercise its option until January of the subsequent year, which of the following changes would reflect the proper accounting treatment for this transaction on Bann's December 31, year-end financial statements?

- a. The option value will be disclosed in the footnotes only.
- b. Other comprehensive income will increase by \$6,000.
- c. Net income will increase by \$5,800.
- d. Current assets will decrease by \$200.

Explanation

Choice "c" is correct.

37. CPA-

Gridiron University is a private university. A successful alumnus has recently donated \$1,000,000 to Gridiron for the purpose of funding a "center for the study of sports ethics." This donation is conditional upon the university raising matching funds within the next 12 months. The university administrators estimate that they have a 50% chance of raising the additional money. How should this donation be accounted for?

- a. As a temporarily restricted support.
- b. As unrestricted support.
- c. As a refundable advance.
- d. As a memorandum entry reported in the footnotes.

Explanation

Choice "c" is correct.

38. CPA-

A company has outstanding accounts payable of \$30,000 and a short-term construction loan in the amount of \$100,000 at year end. The loan was refinanced through issuance of long-term bonds after year end but before issuance of financial statements. How should these liabilities be recorded in the balance sheet?

- a. Long-term liabilities of \$130,000.
- b. Current liabilities of \$130,000.
- c. Current liabilities of \$30,000, long-term liabilities of \$100,000.
- d. Current liabilities of \$130,000, with required footnote disclosure of the refinancing of the loan.

Explanation

Choice "c" is correct.

39. CPA-

During the current fiscal year, Foxx, a nongovernmental not-for-profit organization, received unrestricted pledges of \$300,000. Of the pledged amount, \$200,000 was designated by donors for use during the current year, and \$100,000 was designated for next year. Five percent of the pledges are expected to be uncollectible. What amount should Foxx report as restricted support (contributions) in the statement of activities for the current year?

- a. \$200,000
- b. \$190,000
- c. \$100,000
- d. \$95,000

Explanation

Choice "d" is correct.

40. CPA-

A company has the following liabilities at year end:

Mortgage note payable; \$16,000 due within 12 months	\$355,000
Short-term debt that the company is refinancing with long-term debt	175,000
Deferred tax liability arising from depreciation	25,000

What amount should the company include in the current liability section of the balance sheet?

- a. \$0
- b. \$16,000
- c. \$41,000
- d. \$191,000

Explanation

Choice "b" is correct.

41. CPA-

On October 1 of the current year, a U.S. company sold merchandise on account to a British company for 2,000 pounds (exchange rate, 1 pound = \$1.43). At the company's December 31 fiscal year end, the exchange rate was 1 pound = \$1.45. The exchange rate was 1 pound = \$1.50 on collection in January of the subsequent year. What amount would the company recognize as a gain(loss) from foreign currency translation when the receivable is collected?

- a. \$0
- b. \$100
- c. \$140
- d. (\$140)

Explanation

Choice "b" is correct.

42. CPA-

After three profitable years, Dodd Co. decided to offer a bonus to its branch manager, Cone, of 25% of income over \$100,000 earned by his branch. For the year 2002, income for Cone's branch was \$160,000 before income taxes and Cone's bonus. Cone's bonus is computed on income in excess of \$100,000 after deducting the bonus, but before deducting taxes. What is Cone's bonus for the year 2002?

- a. \$12,000
- b. \$15,000
- c. \$25,000
- d. \$32,000

Explanation

Choice "a" is correct.

43. CPA-

Wall Co. sells a product under a two-year warranty. The estimated cost of warranty repairs is 2% of net sales. During Wall's first two years in business, it made the following sales and incurred the following warranty repair costs:

<u>Year 1</u>	
Total sales	\$250,000
Total repair costs incurred	4,500

<u>Year 2</u>	
Total sales	\$300,000
Total repair costs incurred	5,000

What amount should Wall report as warranty expense for Year 2?

- a. \$1,000
- b. \$5,000
- c. \$5,900
- d. \$6,000

Explanation

Choice "d" is correct.

44. CPA-

A company issued a bond with a stated rate of interest that is less than the effective interest rate on the date of issuance. The bond was issued on one of the interest payment dates. What should the company report on the first interest payment date?

- a. An interest expense that is less than the cash payment made to bondholders.
- b. An interest expense that is greater than the cash payment made to bondholders.
- c. A debit to the unamortized bond discount.
- d. A debit to the unamortized bond premium.

Explanation

Choice "b" is correct.

45. CPA-

Tam Co. reported the following items in its year-end financial statements:

Capital expenditures	\$1,000,000
Capital lease payments	125,000
Income taxes paid	325,000
Dividends paid	200,000
Net interest payments	220,000

What amount should Tam report as supplemental disclosures in its statement of cash flows prepared using the indirect method?

- a. \$545,000
- b. \$745,000
- c. \$1,125,000
- d. \$1,870,000

Explanation

Choice "a" is correct.

46. CPA-

Which of the following statements describes the proper accounting for losses when nonmonetary assets are exchanged for other nonmonetary assets?

- a. A loss is recognized immediately, because assets received should not be valued at more than their cash equivalent price.
- b. A loss is deferred so that the asset received in the exchange is properly valued.
- c. A loss, if any, which is unrelated to the determination of the amount of the asset received should be recorded.
- d. A loss can occur only when assets are sold or disposed of in a monetary transaction.

Explanation

Choice "a" is correct.

47. CPA-

How should a company report its decision to change from a cash-basis of accounting to accrual-basis of accounting?

- a. As a change in accounting principle, requiring the cumulative effect of the change (net of tax) to be reported in the income statement.
- b. Prospectively, with no amounts restated and no cumulative adjustment.
- c. As an extraordinary item (net of tax).
- d. As a prior-period adjustment (net of tax), by adjusting the beginning balance of retained earnings.

Explanation

Choice "d" is correct.

48. CPA-

Baker Co. began its operations during the current year. The following is Baker's balance sheet at December 31:

<i>Baker Co.</i>	
BALANCE SHEET	
<u>Assets</u>	
Cash	\$192,000
Accounts receivable	<u>82,000</u>
Total assets	<u>\$274,000</u>
<u>Liabilities and stockholders' equity</u>	
Accounts payable	\$ 24,000
Common stock	200,000
Retained earnings	<u>50,000</u>
Total liabilities and stockholders' equity	<u>\$274,000</u>

Baker's net income for the current year was \$78,000 and dividends of \$28,000 were declared and paid. Common stock was issued for \$200,000. What amount should Baker report as cash provided by operating activities in its statement of cash flows for the current year?

- a. \$20,000
- b. \$50,000
- c. \$192,000
- d. \$250,000

Explanation

Choice "a" is correct.

49. CPA-

Which of the following is a characteristic of a capital lease?

- a. The lease term is substantially less than the estimated economic life of the leased property.
- b. The lease contains a bargain-purchase option.
- c. The present value of the minimum lease payments at the beginning of the lease term is 75% or more of the fair value of the property at the inception of the lease.
- d. The future obligation does not appear in the balance sheet of the lessee.

Explanation

Choice "b" is correct.

50. CPA-

A company issues bonds at 98, with a maturity value of \$50,000. The entry the company uses to record the original issue should include which of the following?

- a. A debit to bond discount of \$1,000.
- b. A credit to bonds payable of \$49,000.
- c. A credit to bond premium of \$1,000.
- d. A debit to bonds payable of \$50,000.

Explanation

Choice "a" is correct.