



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-

Ande Co. estimates uncollectible accounts expense using the ratio of past actual losses from uncollectible accounts to past net credit sales, adjusted for anticipated conditions. The practice follows the accounting concept of:

- a. Consistency.
- b. Going concern.
- c. Matching.
- d. Substance over form.

Explanation

Choice "c" is correct.

2. CPA-

In Dart Co.'s Year 2 single-step income statement, as prepared by Dart's controller, the section titled "Revenues" consisted of the following:

Sales	\$250,000
Purchase discounts	3,000
Recovery of accounts written off	<u>10,000</u>
Total revenues	\$263,000

In its Year 2 single-step income statement, what amount should Dart report as total revenues?

- a. \$250,000
- b. \$253,000
- c. \$260,000
- d. \$263,000

Explanation

Choice "a" is correct.

3. CPA-

Which of the following would be reported as an investing activity in a company's statement of cash flows?

- a. Collection of proceeds from a note payable.
- b. Collection of a note receivable from a related party.
- c. Collection of an overdue account receivable from a customer.
- d. Collection of a tax refund from the government.

Explanation

Choice "b" is correct.

4. CPA-

Young & Jamison's modified cash-basis financial statements indicate cash paid for operating expenses of \$150,000, end-of-year prepaid expenses of \$15,000, and accrued liabilities of \$25,000. At the beginning of the year, Young & Jamison had prepaid expenses of \$10,000, while accrued liabilities were \$5,000. If cash paid for operating expenses is converted to accrual-basis operating expenses, what would be the amount of operating expenses?

- a. \$125,000
- b. \$135,000
- c. \$165,000
- d. \$175,000

Explanation

Choice "c" is correct.

5. CPA-

Garson Co. recorded goods in transit purchased f.o.b. shipping point at year end as purchases. The goods were excluded from ending inventory. What effect does the omission have on Garson's assets and retained earnings at year end?

	<u>Assets</u>	<u>Retained earnings</u>
a.	No effect	Overstated
b.	No effect	Understated
c.	Understated	No effect
d.	Understated	Understated

Explanation

Choice "d" is correct.

6. CPA-

Last year, Katt Co. reduced the carrying amount of its long-lived assets used in operations from \$120,000 to \$100,000, in connection with its annual impairment review. During the current year, Katt determined that the fair value of the same assets had increased to \$130,000. What amount should Katt record as restoration of previously recognized impairment loss in the current year's financial statements?

- a. \$0
- b. \$10,000
- c. \$20,000
- d. \$30,000

Explanation

Choice "a" is correct.

7. CPA-

Northstar Co. acquired a registered trademark for \$600,000. The trademark has a remaining legal life of five years, but can be renewed every 10 years for a nominal fee. Northstar expects to renew the trademark indefinitely. What amount of amortization expense should Northstar record for the trademark in the current year?

- a. \$0
- b. \$15,000
- c. \$40,000
- d. \$120,000

Explanation

Choice "a" is correct.

8. CPA-

Acme Co.'s accounts payable balance at December 31 was \$850,000 before necessary year-end adjustments, if any, related to the following information:

At December 31, Acme has a \$50,000 debit balance in its accounts payable resulting from a payment to a supplier for goods to be manufactured to Acme's specifications.

Goods shipped f.o.b. destination on December 20 were received and recorded by Acme on January 2, the invoice cost was \$45,000.

In its December 31 balance sheet, what amount should Acme report as accounts payable?

- a. \$850,000
- b. \$895,000
- c. \$900,000
- d. \$945,000

Explanation

Choice "c" is correct.

9. CPA-

On September 30, World Co. borrowed \$1,000,000 on a 9% note payable. World paid the first of four quarterly payments of \$264,200 when due on December 30. In its December 31, balance sheet, what amount should World report as note payable?

- a. \$735,800
- b. \$750,000
- c. \$758,300
- d. \$825,800

Explanation

Choice "c" is correct.

10. CPA-

Finch Co. reported a total asset retirement obligation of \$257,000 in last year's financial statements. This year, Finch acquired assets subject to unconditional retirement obligations measured at undiscounted cash flow estimates of \$110,000 and discounted cash flow estimates of \$68,000. Finch paid \$87,000 toward the settlement of previously recorded asset retirement obligations and recorded an accretion expense of \$26,000. What amount should Finch report for the asset retirement obligation in this year's balance sheet?

- a. \$238,000
- b. \$264,000
- c. \$280,000
- d. \$306,000

Explanation

Choice "b" is correct.

11. CPA-

Falton Co. had the following first-year amounts related to its \$9,000,000 construction contract:

Actual costs incurred and paid	\$2,000,000
Estimated costs to complete	6,000,000
Progress billings	1,800,000
Cash collected	1,500,000

What amount should Falton recognize as a current liability at year end, using the percentage-of-completion method?

- a. \$0
- b. \$200,000
- c. \$250,000
- d. \$300,000

Explanation

Choice "a" is correct.

12. CPA-

Conlon Co. is the plaintiff in a patent-infringement case. Conlon has a high probability of a favorable outcome, and can reasonably estimate the amount of the settlement. What is the proper accounting treatment of the patent infringement case?

- a. A gain contingency for the minimum estimated amount of the settlement.
- b. A gain contingency for the estimated probable settlement.
- c. Disclosure in the notes only.
- d. No reporting is required at this time.

Explanation

Choice "c" is correct.

13. CPA-

A firm has basic earnings per share of \$1.29. If the tax rate is 30%, which of the following securities would be dilutive?

- a. Cumulative 8%, \$50 par preferred stock.
- b. Ten percent convertible bonds, issued at par, with each \$1,000 bond convertible into 20 shares of common stock.
- c. Seven percent convertible bonds, issued at par, with each \$1,000 bond convertible into 40 shares of common stock.
- d. Six percent, \$100 par cumulative convertible preferred stock, issued at par, with each preferred share convertible into four shares of common stock.

Explanation

Choice "c" is correct.

14. CPA-

On which of the following dates is a public entity required to measure the cost of employee services in exchange for an award of equity interests, based on the fair market value of the award?

- a. Date of grant.
- b. Date of restriction lapse.
- c. Date of vesting.
- d. Date of exercise.

Explanation

Choice "a" is correct.

15. CPA-

An entity sponsors a defined benefit pension plan that is underfunded by \$800,000. A \$500,000 increase in the fair value of plan assets would have which of the following effects on the financial statements of the entity?

- a. An increase in the assets of the entity.
- b. An increase in accumulated other comprehensive income of the entity for the full amount of the increase in the value of the assets.
- c. A decrease in accumulated other comprehensive income of the entity for the full amount of the increase in the value of the assets.
- d. A decrease in the liabilities of the entity.

Explanation

Choice "d" is correct.

16. CPA-

Neely Co. disclosed in the notes to its financial statements that a significant number of its unsecured trade account receivables are with companies that operate in the same industry. This disclosure is required to inform financial statement users of the existence of:

- a. Concentration of credit risk.
- b. Concentration of market risk.
- c. Risk of measurement uncertainty.
- d. Off-balance sheet risk of accounting loss.

Explanation

Choice "a" is correct.

17. CPA-

Sun Co. was constructing fixed assets that qualified for interest capitalization. Sun had the following outstanding debt issuances during the entire year of construction:

- \$6,000,000 face value, 8% interest.
- \$8,000,000 face value, 9% interest.

None of the borrowings were specified for the construction of the qualified fixed asset. Average expenditures for the year were \$1,000,000. What interest rate should Sun use to calculate capitalized interest on the construction?

- a. 8.00%
- b. 8.50%
- c. 8.57%
- d. 9.00%

Explanation

Choice "c" is correct.

18. CPA-

Bard Co., a calendar-year corporation, reported income before income tax expense of \$10,000 and income tax expense of \$1,500 in its interim income statement for the first quarter of the year. Bard had income before income tax expense of \$20,000 for the second quarter and an estimated effective annual rate of 25%. What amount should Bard report as income tax expense in its interim income statement for the second quarter?

- a. \$3,500
- b. \$5,000
- c. \$6,000
- d. \$7,500

Explanation

Choice "c" is correct.

19. CPA-

On January 2 of the current year, LTTI Co. entered into a three-year, non-cancelable contract to buy up to 1 million units of a product each year at \$.10 per unit with a minimum annual guarantee purchase of 200,000 units. At year end, LTTI had only purchased 80,000 units and decided to cancel sales of the product. What amount should LTTI report as a loss related to the purchase commitment as of December 31 of the current year?

- a. \$0
- b. \$8,000
- c. \$12,000
- d. \$52,000

Explanation

Choice "d" is correct.

20. CPA-

In Soan County's general fund statement of revenues, expenditures, and changes in fund balances, which of the following has an effect on the excess of revenues over expenditures?

- a. Purchase of fixed assets.
- b. Payment to a debt-service fund.
- c. Special items.
- d. Proceeds from the sale of capital assets.

Explanation

Choice "a" is correct.

21. CPA-

How should state appropriations to a state university choosing to report as engaged only in business-type activities be reported in its statement of revenues, expenses, and changes in net assets?

- a. Operating revenues.
- b. Nonoperating revenues.
- c. Capital contributions.
- d. Other financing sources.

Explanation

Choice "b" is correct.

22. CPA-

What is the major difference between an exchange transaction and a non-exchange transaction for governmental units?

- a. The relationship between the amount of value given and received.
- b. Time requirements and whether the transaction is required by law.
- c. Purpose restrictions placed upon fund balances.
- d. Whether resources acquired can be further exchanged.

Explanation

Choice "a" is correct.

23. CPA-

A nongovernmental not-for-profit animal shelter receives contributed services from the following individuals valued at their normal billing rate:

Veterinarian provides volunteer animal care	\$8,000
Board members volunteer to prepare books for audit	4,500
Registered nurse volunteers as receptionist	3,000
Teacher provides volunteer dog walking	2,000

What amount should the shelter record as contribution revenue?

- a. \$8,000
- b. \$11,000
- c. \$12,500
- d. \$14,500

Explanation

Choice "c" is correct.

24. CPA-

Whitestone, a nongovernmental not-for-profit organization, received a contribution in December, Year 1. The donor restricted use of the contribution until March, Year 2. How should Whitestone record the contribution?

- a. Footnote the contribution in Year 1 and record as income when it becomes available in Year 2.
- b. No entry required in Year 1 and record as income in Year 2 when it becomes available.
- c. Report as income in Year 1.
- d. Report as deferred income in Year 1.

Explanation

Choice "c" is correct.

25. CPA-

A nongovernmental, not-for-profit organization received the following donations of corporate stock during the year:

	<u>Donation 1</u>	<u>Donation 2</u>
Number of shares	<u>2,000</u>	<u>3,000</u>
Adjusted basis	\$8,000	\$5,500
Fair market value at time of donation	8,500	6,000
Fair market value at year end	10,000	4,000

What net value of investments will the organization report at the end of the year?

- a. \$12,000
- b. \$13,500
- c. \$14,000
- d. \$14,500

Explanation

Choice "c" is correct.

26. CPA-

According to the FASB conceptual framework, which of the following correctly pairs a primary qualitative characteristic of accounting information with one of its components?

- a. Relevance and Timeliness.
- b. Relevance and Verifiability.
- c. Reliability and Predictive Value.
- d. Reliability and Feedback Value.

Explanation

Choice "a" is correct.

27. CPA-

Which of the following is included in other comprehensive income?

- a. Unrealized holding gains and losses on trading securities.
- b. Unrealized holding gains and losses that result from a debt security being transferred into the held-to-maturity category from the available-for-sale category.
- c. Foreign currency translation adjustments.
- d. The difference between the accumulated benefit obligation and the fair value of pension plan assets.

Explanation

Choice "c" is correct.

28. CPA-

Which of the following transactions should be classified as investing activities on an entity's statement of cash flows?

- a. Increase in accounts receivable.
- b. Sale of property, plant and equipment.
- c. Payment of cash dividend to the shareholders.
- d. Issuance of common stock to the shareholders.

Explanation

Choice "b" is correct.

29. CPA-

A company provides the following information:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>
Cash receipts from customers:			
From Year 1 sales	\$95,000	\$120,000	
From Year 2 sales		200,000	\$75,000
From Year 3 sales		50,000	225,000

What is the accrual-based revenue for Year 2?

- a. \$200,000
- b. \$275,000
- c. \$320,000
- d. \$370,000

Explanation

Choice "b" is correct.

30. CPA-

Milton Co. pledged some of its accounts receivable to Good Neighbor Financing Corporation in return for a loan. Which of the following statements is correct?

- a. Good Neighbor Financing cannot take title to the receivables if Milton does not repay the loan. Title can only be taken if the receivables are factored.
- b. Good Neighbor Financing will assume the responsibility of collecting the receivables.
- c. Milton will retain control of the receivables.
- d. Good Neighbor Financing will take title to the receivables, and will return title to Milton after the loan is paid.

Explanation

Choice "c" is correct.

31. CPA-

On April 1, Aloe, Inc. factored \$80,000 of its accounts receivable without recourse. The factor retained 10% of the accounts receivable as an allowance for sales returns and charged a 5% commission on the gross amount of the factored receivables. What amount of cash did Aloe receive from the factored receivables?

- a. \$68,000
- b. \$68,400
- c. \$72,000
- d. \$76,000

Explanation

Choice "a" is correct.

32. CPA-

What is the appropriate treatment for goods held on consignment?

- a. The goods should be included in ending inventory of the consignor.
- b. The goods should be included in ending inventory of the consignee.
- c. The goods should be included in cost of goods sold of the consignee only when sold.
- d. The goods should be included in cost of goods sold of the consignor when transferred to the consignee.

Explanation

Choice "a" is correct.

33. CPA-

Talton Co. installed new assembly line production equipment at a cost of \$185,000. Talton had to rearrange the assembly line and remove a wall to install the equipment. The rearrangement cost \$12,000 and the wall removal cost \$3,000. The rearrangement did not increase the life of the assembly line but it did make it more efficient. What amount of these costs should be capitalized by Talton?

- a. \$185,000
- b. \$188,000
- c. \$197,000
- d. \$200,000

Explanation

Choice "d" is correct.

34. CPA-

Newt Co. sold a warehouse and used the proceeds to acquire a new warehouse. The excess of the proceeds over the carrying amount of the warehouse sold should be reported as a(an):

- a. Reduction of the cost of the new warehouse.
- b. Gain from discontinued operations, net of income taxes.
- c. Part of continuing operations.
- d. Extraordinary gain, net of taxes.

Explanation

Choice "c" is correct.

35. CPA-

When should a long-lived asset be tested for recoverability?

- a. When external financial statements are being prepared.
- b. When events or changes in circumstances indicate that its carrying amount may **not** be recoverable.
- c. When the asset's carrying amount is **less** than its fair value.
- d. When the asset's fair value has decreased, and the decrease is judged to be permanent.

Explanation

Choice "b" is correct.

36. CPA-

A company recently acquired a copyright that now has a remaining legal life of 30 years. The copyright initially had a 38-year useful life assigned to it. An analysis of market trends and consumer habits indicated that the copyrighted material will generate positive cash flows for approximately 25 years. What is the remaining useful life, if any, over which the company can amortize the copyright for accounting purposes?

- a. 0 years.
- b. 25 years.
- c. 30 years.
- d. 38 years.

Explanation

Choice "b" is correct.

37. CPA-

A company reported \$6 million of goodwill in last year's statement of financial position. How should the company account for the reported goodwill in the current year?

- a. Determine the current year's amortizable amount and report the current-year's amortization expense.
- b. Determine whether the fair value of the reporting unit is greater than the carrying amount and report a gain on goodwill in the income statement.
- c. Determine whether the fair value of the reporting unit is **less** than the carrying amount and report an impairment loss on goodwill in the income statement.
- d. Determine whether the fair value of the reporting unit is greater than the carrying amount and report the recovery of any previous impairment in the income statement.

Explanation

Choice "c" is correct.

38. CPA-

The senior accountant for Carlton Co., a public company with a complex capital structure, has just finished preparing Carlton's income statement for the current fiscal year. While reviewing the income statement, Carlton's finance director noticed that the earnings per share data has been omitted. What changes will have to be made to Carlton's income statement as a result of the omission of the earnings per share data?

- a. No changes will have to be made to Carlton's income statement. The income statement is complete without the earnings per share data.
- b. Carlton's income statement will have to be revised to include the earnings per share data.
- c. Carlton's income statement will only have to be revised to include the earnings per share data if Carlton's market capitalization is greater than \$5,000,000.
- d. Carlton's income statement will only have to be revised to include the earnings per share data if Carlton's net income for the past two years was greater than \$5,000,000.

Explanation

Choice "b" is correct.

39. CPA-

A derivative financial instrument is best described as:

- a. Evidence of an ownership interest in an entity such as shares of common stock.
- b. A contract that has its settlement value tied to an underlying notional amount.
- c. A contract that conveys to a second entity a right to receive cash from a first entity.
- d. A contract that conveys to a second entity a right to future collections on accounts receivable from a first entity.

Explanation

Choice "b" is correct.

40. CPA-

In Year 2, Ajax, Inc. reported taxable income of \$400,000 and pretax financial statement income of \$300,000. The difference resulted from \$60,000 of nondeductible premiums on Ajax's officers' life insurance and \$40,000 of rental income received in advance. Rental income is taxable when received. Ajax's effective tax rate is 30%. In its Year 2 income statement, what amount should Ajax report as income tax expense-current portion?

- a. \$90,000
- b. \$102,000
- c. \$108,000
- d. \$120,000

Explanation

Choice "d" is correct.

41. CPA-

When accounting for income taxes, a temporary difference occurs in which of the following scenarios?

- a. An item is included in the calculation of net income, but is neither taxable nor deductible.
- b. An item is included in the calculation of net income in one year and in taxable income in a different year.
- c. An item is **no** longer taxable due to a change in the tax law.
- d. The accrual method of accounting is used.

Explanation

Choice "b" is correct.

42. CPA-

How are discontinued operations and extraordinary items that occur at midyear initially reported?

- a. Disclosed only in the notes to the year-end financial statements.
- b. Included in net income and disclosed in the notes to the year-end financial statements.
- c. Included in net income and disclosed in the notes to interim financial statements.
- d. Disclosed only in the notes to interim financial statements.

Explanation

Choice "c" is correct.

43. CPA-

Able Co. leased equipment to Baker under a noncancellable lease with a transfer of title. Will Able record depreciation expense on the leased asset and interest revenue related to the lease?

	<u>Depreciation expense</u>	<u>Interest revenue</u>
a.	Yes	Yes
b.	Yes	No
c.	No	No
d.	No	Yes

Explanation

Choice "d" is correct.

44. CPA-

During the current year, Beta Motor Co. incurred the following costs related to a new solar-powered car:

Salaries of laboratory employees researching how to build the new car	\$250,000
Legal fees for the patent application for the new car	20,000
Engineering follow-up during the early stages of commercial production (the follow-up occurred during the current year)	50,000
Marketing research to promote the new car	30,000
Design, testing, and construction of a prototype	400,000

What amount should Beta Motor report as research and development expense in its income statement for the current year?

- a. \$250,000
- b. \$650,000
- c. \$720,000
- d. \$750,000

Explanation

Choice "b" is correct.

45. CPA-

An enterprise must separately report information about an operating segment when the segment's revenue meets what minimum percentage of the combined revenue of all reported operating segments?

- a. 5%
- b. 10%
- c. 20%
- d. 50%

Explanation

Choice "b" is correct.

46. CPA-

King City Council will be establishing a library fund. Library fees are expected to cover 55% of the library's annual resource requirements. King has decided that an annual determination of net income is desirable in order to maintain management control and accountability over library. What type of fund should King establish in order to meet their measurement objectives?

- a. Special revenue fund.
- b. General fund.
- c. Internal service fund.
- d. Enterprise fund.

Explanation

Choice "d" is correct.

47. CPA-

Which of the following statements are required to be presented for special-purpose governments engaged only in business-type activities (such as utilities)?

- a. Statement of net assets only.
- b. Management's Discussion and Analysis (MD&A) and Required Supplementary Information (RSI) only.
- c. The financial statements required for governmental funds, including MD&A.
- d. The financial statements required for enterprise funds, including MD&A and RSI.

Explanation

Choice "d" is correct.

48. CPA-

Brandon County's general fund had the following transactions during the year:

Transfer to a debt service fund	\$100,000
Payment to a pension trust fund	500,000
Purchase of equipment	300,000

What amount should Brandon County report for the general fund as other financing uses in its governmental funds statement of revenues, expenditures, and changes in fund balances?

- a. \$100,000
- b. \$400,000
- c. \$800,000
- d. \$900,000

Explanation

Choice "a" is correct.

49. CPA-

During the current year, the local humane society, a nongovernmental not-for-profit organization, received a \$100,000 permanent endowment from Cobb. Cobb stipulated that the income must be used to care for older horses that can no longer race. The endowment reported income of \$8,000 in the current year.

What amount of unrestricted contribution revenue should the humane society report for the current year?

- a. \$108,000
- b. \$100,000
- c. \$8,000
- d. \$0

Explanation

Choice "d" is correct.

50. CPA-

How should operating expenses for a nongovernmental not-for-profit organization be reported?

- a. Change in temporarily restricted net assets.
- b. Change in unrestricted net assets.
- c. Change in permanently restricted net assets.
- d. Contra-account to associated revenues.

Explanation

Choice "b" is correct.

51. CPA-

A company is an accelerated filer that is required to file Form 10-K with the United States Securities and Exchange Commission (SEC). What is the maximum number of days after the company's fiscal year end that the company has to file Form 10-K with the SEC?

- a. 60 days.
- b. 75 days.
- c. 90 days.
- d. 120 days.

Explanation

Choice "b" is correct.

52. CPA-

A company is required to file quarterly financial statements with the United States Securities and Exchange Commission on Form 10-Q. The company operates in an industry that is not subject to seasonal fluctuations that could have a significant impact on its financial condition. In addition to the most recent quarter end, for which of the following periods is the company required to present balance sheets on Form 10-Q?

- a. The end of the corresponding fiscal quarter of the preceding fiscal year.
- b. The end of the preceding fiscal year and the end of the corresponding fiscal quarter of the preceding fiscal year.
- c. The end of preceding fiscal year.
- d. The end of the preceding fiscal year and the end of the prior two fiscal years.

Explanation

Choice "c" is correct.

53. CPA-

How should a first-time adopter of IFRS recognize the adjustments required to present its opening IFRS statement of financial position?

- a. All of the adjustments should be recognized in profit or loss.
- b. Adjustments that are capital in nature should be recognized in retained earnings and adjustments that are revenue in nature should be recognized in profit or loss.
- c. Current adjustments should be recognized in profit or loss and noncurrent adjustments should be recognized in retained earnings.
- d. All of the adjustments should be recognized directly in retained earnings or, if appropriate, in another category of equity.

Explanation

Choice "d" is correct.

54. CPA-

Which of the following is the minimum reporting requirement for a company that is preparing its first IFRS financial statements?

- a. Three statements of financial position.
- b. Two statements of financial position.
- c. One statement of comprehensive income.
- d. One statement of cash flows.

Explanation

Choice "a" is correct.