

**This document includes a series of multiple-choice questions (MCQs) that were previously used on The Uniform CPA Examination®. These MCQs represent a one-time release of Exam content to the general public intended to provide examples of the types of MCQs used on the Exam.**

This document will be accessible from October 1, 2019 through December 31, 2019. These MCQs will not be updated to reflect the impact of any standard-setting or regulatory activity (changes) that occurs after October 1, 2019, which could make them obsolete or technically incorrect. It is your sole responsibility to be aware of changes that may impact these questions and answers. The AICPA undertakes no responsibility to update these questions and answers.

**The document includes:**

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|---|---------------|
| 40 MCQs from the Auditing and Attestation (AUD) Section           | Pages 1-41    |
| 25 MCQs from the Business Environment and Concepts (BEC) Section  | Pages 42-67   |
| 50 MCQs from the Financial Accounting and Reporting (FAR) Section | Pages 68-118  |
| 25 MCQs from the Regulation (REG) Section                         | Pages 119-144 |

**Each MCQ includes the following attributes:**

- Question
- Answer choices
- Item ID (unique question identifier)
- Key is the correct answer
- Content coding to the Blueprints effective July 1, 2019
  - coding schema = ABC.00X.0YY.0ZZ
    - ABC = Exam section (AUD, BEC, FAR, or REG)
    - 00X = Blueprint Area (001,002,003,004,005 that corresponds to I,II,III,IV, V in the Blueprints)
    - 0YY = Group within the Blueprint Area (001 through 012 that corresponds to A through L in the Blueprint)
    - 0ZZ = Topic within the Blueprint Group (001 through 010 that corresponds to 1 through 10 in the Blueprints)
- Skill coding to the Blueprints (Remembering and Understanding or Application)

# AUD

1. Which of the following statements is correct concerning both an engagement to compile and an engagement to review a nonissuer's financial statements?

- A.The accountant expresses **no** assurance on the financial statements.
- B.The accountant should obtain a written management representation letter.
- C.The accountant need **not** obtain an understanding of internal control.
- D.The accountant must be independent in fact and appearance.

Item ID: 24409  
Key: C  
AUD.CSO.20190701: AUD.001.001.003  
AUD.SSO.20190701: Remembering and Understanding:1

2. A compilation of financial statements in accordance with *Statements on Standards for Accounting and Review Services* is limited to presenting

A.Accounting data that conforms with a special purpose framework other than GAAP.

B.Unaudited financial statements that omit substantially all required GAAP disclosures.

C.Information in the form of financial statements that is the representation of management.

D.Supplementary financial information that has been subjected to inquiry and analytical procedures.

Item ID: 8937  
Key: C  
AUD.CSO.20190701: AUD.001.001.003  
AUD.SSO.20190701: Remembering and Understanding:1

3. According to rules issued under the Sarbanes-Oxley Act, which of the following nonaudit services is an accounting firm permitted to provide for an issuer audit client without impairing the accounting firm's independence?

A. Providing an expert opinion in order to advocate the client's interest in litigation.

B. Providing an expert opinion in order to advocate the client's position in a regulatory investigation.

C. Providing factual accounts in testimony explaining positions taken during the performance of any services provided to the client.

D. Providing legal services to the client in a foreign jurisdiction.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 10799           |
| Key:              | C               |
| AUD.CSO.20190701: | AUD.001.002.002 |
| AUD.SSO.20190701: | Application:2   |

4. Before accepting an audit engagement, a CPA should evaluate whether conditions exist that raise questions as to the integrity of management. Which of the following conditions most likely would raise such questions?

A. There are significant differences between the entity's forecasted financial statements and the financial statements to be audited.

B. The CPA will **not** be permitted to have access to sensitive information regarding the salaries of senior management.

C. There have been substantial inventory write-offs just before the year end in each of the past four years.

D. The CPA becomes aware of the existence of related party transactions while reading the draft financial statements.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 9699            |
| Key:              | B               |
| AUD.CSO.20190701: | AUD.001.003.001 |
| AUD.SSO.20190701: | Application:2   |

5. Which of the following factors most likely would cause a CPA **not** to accept a new audit engagement?

A. Management reputation for failing to provide schedules to prior auditors on a timely basis.

B. The CPA's inability to review the predecessor auditor's working papers.

C. Management's unwillingness to make all financial records available to the CPA.

D. The CPA's lack of understanding of the entity's operations and industry.

Item ID: 10227  
Key: C  
AUD.CSO.20190701: AUD.001.003.001  
AUD.SSO.20190701: Remembering and Understanding:1

6. Which of the following factors most likely would cause an accountant **not** to accept an engagement to compile the financial statements of a nonissuer?

A. A lack of segregation of duties in the entity's accounting and payroll departments.

B. Indications that reports of asset misappropriation are **not** investigated by management.

C. The entity's intention to omit from the financial statements substantially all of the disclosures required by GAAP.

D. Management's acknowledgement that the financial statements will be included in a written personal financial plan.

Item ID: 24423  
Key: B  
AUD.CSO.20190701: AUD.001.003.001  
AUD.SSO.20190701: Application:2



7. Which of the following statements would most likely appear in an auditor's engagement letter?

A. Management is responsible for reporting to us any inadequate provisions for the safeguarding of assets.

B. We will identify internal controls relevant to specific assertions that may prevent or detect material misstatements.

C. Management agrees to correct all deficiencies in internal control activities identified by us.

D. Management is responsible for making all financial records and related information available to us.

Item ID: 10137

Key: D

AUD.CSO.20190701: AUD.001.003.002

AUD.SSO.20190701: Remembering and Understanding:1

8. Which of the following activities is **not** an element of a CPA firm's quality control system to be considered in establishing quality control policies and procedures?

- A. Deciding whether to accept or continue a client relationship.
- B. Selecting personnel for advancement who have the necessary qualifications.
- C. Assessing a client's ability to establish effective internal controls.
- D. Monitoring the effectiveness of professional development activities.

Item ID: 10415  
Key: C  
AUD.CSO.20190701: AUD.001.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

9. The purpose of establishing quality control policies and procedures for deciding whether to accept or continue a client relationship is to

A. Provide reasonable assurance that personnel are adequately trained to fulfill their responsibilities.

B. Minimize the likelihood of associating with clients whose management lacks integrity.

C. Document the matters that are required to be communicated to the audit committee.

D. Enhance the auditor's understanding of the client's business and its industry.

Item ID: 10599  
Key: B  
AUD.CSO.20190701: AUD.001.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

10. Which of the following is an element of a CPA firm's quality control policies and procedures applicable to the firm's accounting and auditing practice?

A.Engagement performance.

B.Risk analysis.

C.Safeguarding of assets.

D.Information processing.

Item ID: 10681  
Key: A  
AUD.CSO.20190701: AUD.001.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

11. Which of the following is an element of a CPA firm's quality control policies and procedures applicable to the firm's auditing practice?

- A. Acceptance of a client relationship.
- B. Professional skepticism of management.
- C. Computer information processing.
- D. Efficiency of organizational structures.

Item ID: 10757  
Key: A  
AUD.CSO.20190701: AUD.001.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

12. Which of the following procedures would an auditor most likely perform before the balance sheet?

- A. Confirm with client's lawyer that all litigation probable of assertion has been disclosed to the auditor.
- B. Obtain an understanding of the client's internal control activities.
- C. Determine whether there are any liens or encumbrances on assets that have been pledged as collateral.
- D. Consider the client's plans and ability to meet imminent purchase commitments and cash flow obligations.

Item ID: 9727  
Key: B  
AUD.CSO.20190701: AUD.002.003.002  
AUD.SSO.20190701: Application:2

13. Which of the following factors most likely would be considered an inherent limitation to an entity's internal control?

- A.The ineffectiveness of the entity's audit committee.
- B.Collusion of employees in circumventing internal controls.
- C.The lack of resources to monitor internal controls.
- D.The complexity of the entity's electronic order processing system.

Item ID: 10693  
Key: B  
AUD.CSO.20190701: AUD.002.003.005  
AUD.SSO.20190701: Application:2

14. Which of the following factors most likely would heighten an auditor's concern about the risk of fraudulent financial reporting?

- A.The audit committee's approval of the initial selection of accounting principles.
- B.A lack of competition in the entity's industry, accompanied by increasing profit margins.
- C.Management's disclosure of unresolved litigation and contingent liabilities.
- D.Year-end adjustments by the entity that significantly affect financial results.

Item ID: 9869  
Key: D  
AUD.CSO.20190701: AUD.002.005.001  
AUD.SSO.20190701: Application:2



15. Which of the following characteristics most likely would heighten an auditor's concern about the risk of material misstatements arising from fraudulent financial reporting?

- A. Management displays a significant disregard for regulatory authorities.
- B. There is a lack of turnover of employees in the accounting department.
- C. Monthly bank reconciliations usually include several deposits in transit.
- D. Equipment is usually sold at a loss before being fully depreciated.

Item ID: 10143  
Key: A  
AUD.CSO.20190701: AUD.002.005.001  
AUD.SSO.20190701: Application:2

16. Which of the following circumstances most likely would cause an auditor to suspect that there are material misstatements in an entity's financial statements?

- A. There are unusual discrepancies between the entity's records and confirmation replies.
- B. Management enforces strict budgetary controls over the entity's departmental supervisors.
- C. Cash transactions are electronically processed and recorded, leaving **no** paper audit trail.
- D. The monthly bank reconciliation ordinarily includes several large outstanding checks.

Item ID: 10475  
Key: A  
AUD.CSO.20190701: AUD.002.005.001  
AUD.SSO.20190701: Application:2

17. Which of the following factors most likely would heighten an auditor's concern about the risk of material misstatement arising from the misappropriation of assets?

- A. There is a potential for bias in the preparation of accounting estimates.
- B. The entity's fixed assets lack ownership identification.
- C. Management recently adopted new accounting principles.
- D. The entity recently experienced rapid growth in revenue.

Item ID: 10427  
Key: B  
AUD.CSO.20190701: AUD.002.005.002  
AUD.SSO.20190701: Application:2

18. If the objective of an auditor's test of details is to detect the overstatement of sales, the auditor should trace transactions from the

- A.Sales journal to the shipping documents.
- B.Shipping documents to the cash receipts journal.
- C.Cash receipts journal to the customer's purchase orders.
- D.Customer's purchase orders to the sales journal.

Item ID: 8985  
Key: A  
AUD.CSO.20190701: AUD.002.005.003  
AUD.SSO.20190701: Application:2

19. When assessing an internal auditor's objectivity, an independent auditor should

- A. Perform tests of controls to determine whether significant internal control activities are properly maintained.
- B. Analyze the risk factors that relate to misstatements arising from the misappropriation of assets.
- C. Review the internal auditor's reports to verify that the conclusions reached are consistent with the procedures performed.
- D. Consider the policies that prohibit the internal auditor from auditing areas where relatives are employed in key management positions.

Item ID: 10155  
Key: D  
AUD.CSO.20190701: AUD.002.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

20. Which of the following procedures would a CPA most likely include in planning a financial statement audit?

- A. Determine the extent of involvement of the client's internal auditors.
- B. Ask the client's lawyer if contingencies have been recorded in conformity with GAAP.
- C. Obtain a written representation letter from the client's management.
- D. Scan the client's journals and ledgers to identify any unusual transactions.

Item ID: 24503  
Key: A  
AUD.CSO.20190701: AUD.002.007.000  
AUD.SSO.20190701: Remembering and Understanding:1

21. In selecting an appropriate sample for a substantive test, the auditor most likely would stratify the population if the

- A. Auditor suspects that management fraud has occurred during the year.
- B. Desired assessed level of control risk is less than the prior year.
- C. Technique to be used is attribute sampling.
- D. Auditor plans to give greater representation to large recorded amounts.

Item ID: 10259  
Key: D  
AUD.CSO.20190701: AUD.003.002.000  
AUD.SSO.20190701: Application:2

22. Which of the following sampling methods would an auditor use to estimate a numerical measurement of a population, such as the dollar value of inventory?

A.Variable sampling.

B.Discovery sampling.

C.Attribute sampling.

D.Random-number sampling.

Item ID: 10363

Key: A

AUD.CSO.20190701: AUD.003.002.000

AUD.SSO.20190701: Remembering and Understanding:1



23. An auditor is selecting prenumbered purchase orders for testing an entity's internal control activities related to their proper approval before office equipment is ordered. The auditor is matching random numbers with the purchase order numbers to determine which purchase orders to inspect. If a random number matches a voided purchase order, the auditor ordinarily would replace the voided purchase order with another if the voided purchase order

- A. Represents office equipment ordered and **never** received.
- B. Has been properly voided in the normal course of business.
- C. Represents office equipment ordered and canceled before being processed by the vendor.
- D. Has been electronically deleted from the purchase order file.

Item ID: 10527  
Key: B  
AUD.CSO.20190701: AUD.003.002.000  
AUD.SSO.20190701: Application:2

24. In assessing the tolerable rate of deviations of a test of controls that was performed using statistical sampling, an auditor should consider that
- A.Deviations from pertinent controls do **not** affect the risk of material misstatement in the accounting records.
  - B.Deviations from pertinent controls at a given rate ordinarily result in misstatements at a lower rate.
  - C.When the degree of assurance desired in a sample is high, the auditor should allow for a high level of sampling risk.
  - D.Increasing the number of items selected for the test of controls usually increases the tolerable rate of deviations.

Item ID: 9541  
Key: B  
AUD.CSO.20190701: AUD.003.002.000  
AUD.SSO.20190701: Application:2

25. An auditor is using statistical sampling in testing whether cash disbursements were properly authorized. The sample results indicate that the sample rate of deviation plus the allowance for sampling risk exceeds the tolerable rate. Under these circumstances, the auditor most likely would reduce the

- A.Planned reliance on the prescribed control.
- B.Assessed level of control risk.
- C.Planned reliance on substantive tests.
- D.Tolerable rate of deviations.

Item ID: 9611  
Key: A  
AUD.CSO.20190701: AUD.003.002.000  
AUD.SSO.20190701: Application:2

26. An auditor decides to use the blank form of positive accounts receivable confirmation. The auditor should be aware that the blank form may be ineffective because

- A. All accounts do **not** have an equal opportunity to be selected for confirmation.
- B. Accounts unconfirmed may have already been written off as uncollectible.
- C. Few responses may occur because more effort is required of recipients.
- D. Accounts actually confirmed may **not** be representative of the population.

Item ID: 10359  
Key: C  
AUD.CSO.20190701: AUD.003.003.002  
AUD.SSO.20190701: Application:2

27. Confirmation of accounts receivable that have been categorized initially by an auditor as “exceptions” most likely could be due to

- A. Customers who have credit or zero balances with the client.
- B. Responses that were mailed rather than faxed to the auditor.
- C. Accounts receivable that have been classified as uncollectible.
- D. Payments mailed to the client that have **not** been recorded.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 10449           |
| Key:              | D               |
| AUD.CSO.20190701: | AUD.003.003.002 |
| AUD.SSO.20190701: | Application:2   |

28. Which of the following procedures does a CPA usually perform when reviewing the financial statements of a nonissuer?

- A. Make inquiries of management concerning restrictions on the availability of cash balances.
- B. Communicate deficiencies in the design of internal control to the entity's audit committee.
- C. Examine trend analysis to determine the appropriateness of the CPA's assessment of detection risk.
- D. Evaluate management's plans for dealing with negative trends and financial difficulties.

Item ID: 10647  
Key: A  
AUD.CSO.20190701: AUD.003.003.003  
AUD.SSO.20190701: Remembering and Understanding:1

29. Which of the following procedures would an accountant **least** likely perform during an engagement to review the financial statements of a nonissuer?

- A. Make inquiries of management about actions taken at board of directors' meetings.
- B. Study the relationships of financial statement elements expected to conform to predictable patterns.
- C. Identify internal control activities that are likely to prevent or detect material misstatements.
- D. Compare the financial statements with anticipated results in budgets and forecasts.

Item ID: 10365  
Key: C  
AUD.CSO.20190701: AUD.003.003.006  
AUD.SSO.20190701: Application:2

30. In performing substantive tests regarding the granting of stock options to senior management of an issuer, an auditor most likely would

- A. Confirm with those members of management as to whether they are actually option holders.
- B. Verify the existence of option holders in the issuer's payroll and human resources records.
- C. Trace the authorization for the options granted to the board of directors' approval.
- D. Review the public records of the SEC to determine whether the options were properly reported.

Item ID: 10169  
Key: C  
AUD.CSO.20190701: AUD.003.003.006  
AUD.SSO.20190701: Application:2



31. In searching for unrecorded liabilities, an auditor most likely would examine the

- A. Cutoff bank statement for deposits recorded in the books, but **not** by the bank.
- B. Details of accounts receivable confirmations that are classified as "exceptions".
- C. Files of purchase requisitions for items ordered just before the year end.
- D. Receiving reports for items received before year end, but **not** yet recorded.

Item ID: 10553  
Key: D  
AUD.CSO.20190701: AUD.003.003.006  
AUD.SSO.20190701: Remembering and Understanding:1

32. An audit client has a valid reason for requesting that a certain account receivable that the auditor has selected for confirmation not be confirmed. Under these circumstances, the auditor should

- A. Verify the account balance by inspecting the client's bank statements and cash receipt records.
- B. Select at random a different account for confirmation that is approximately the same size.
- C. Request the client's management to document the matter in the management representation letter.
- D. Explain to the client that the request will most likely cause the auditor to disclaim an opinion.

Item ID: 10639  
Key: A  
AUD.CSO.20190701: AUD.003.003.006  
AUD.SSO.20190701: Application:2

33. Which of the following procedures would an auditor most likely perform to obtain evidence about the occurrence of subsequent events?

- A. Verify inventory pledged under loan agreements by confirming the details with financial institutions.
- B. Inquire about the current status of transactions that were recorded on the basis of preliminary data.
- C. Compare the financial statements being reported on with those of the prior year.
- D. Trace information from shipping documents to sales invoices and sales journal transactions.

Item ID: 9987  
Key: B  
AUD.CSO.20190701: AUD.003.007.000  
AUD.SSO.20190701: Application:2

34. Which of the following procedures would an auditor generally perform regarding subsequent events?

- A. Inspect inventory items that were ordered before the year end but arrived after the year end.
- B. Test internal control activities that were previously reported to management as inadequate.
- C. Review the client's cutoff bank statements for several months after the year end.
- D. Compare the latest available interim financial statements with the statements being audited.

Item ID: 10467  
Key: D  
AUD.CSO.20190701: AUD.003.007.000  
AUD.SSO.20190701: Application:2

35. An auditor of a nonissuer may **not** issue a qualified opinion when

- A.The auditor lacks independence with respect to the entity.
- B.Management prevents the auditor from observing the entity's inventory.
- C.The entity omits the statement of cash flows from its financial statements.
- D.The auditor's report refers to the work of an actuary.

Item ID: 10293  
Key: A  
AUD.CSO.20190701: AUD.004.001.001  
AUD.SSO.20190701: Remembering and Understanding:1

36. Mill, CPA, was engaged by a group of royalty recipients to apply agreed-upon procedures to financial data supplied by Modern Co. regarding Modern's written assertion about its compliance with contractual requirements to pay royalties. Mill's report on these agreed-upon procedures should

- A. Disclaimer of opinion about the fair presentation of Modern's financial statements.
- B. List of the procedures performed (or reference thereto) and Mill's findings.
- C. Opinion about the effectiveness of Modern's internal control activities concerning royalty payments.
- D. Acknowledgment that the sufficiency of the procedures is solely Mill's responsibility.

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 9923                            |
| Key:              | B                               |
| AUD.CSO.20190701: | AUD.004.002.002                 |
| AUD.SSO.20190701: | Remembering and Understanding:1 |

37. A CPA was engaged to calculate the rate of return on a specified investment according to an agreed-upon formula and verify that the resultant percentage agrees to the percentage in an identified schedule. The CPA's report on these agreed-upon procedures should contain

- A. An opinion about the fairness of the agreed-upon procedures.
- B. A separate paragraph describing the effectiveness of the internal controls.
- C. A disclaimer of responsibility for the sufficiency of those procedures.
- D. A disclaimer of opinion on the fair presentation of the financial statements.

Item ID: 10747  
Key: C  
AUD.CSO.20190701: AUD.004.002.002  
AUD.SSO.20190701: Remembering and Understanding:1

38. During an engagement to compile the financial statements of a nonissuer, an accountant becomes aware that management had stated land at appraised value and that, if GAAP had been followed, both the land account and stockholders' equity would have been decreased by \$1 million, a material amount. The accountant decides to modify the standard compilation report because management will not revise the financial statements. Under these circumstances, the accountant should

- A. Issue either an adverse opinion or a qualified opinion, depending on materiality, because of the departure from GAAP.
- B. Add a separate paragraph to the accountant's report that restricts the distribution of the financial statements to "internal use only."
- C. Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.
- D. Add a separate paragraph to the accountant's report that explains the underlying purpose of recording assets at historical cost.

Item ID: 24471  
Key: C  
AUD.CSO.20190701: AUD.004.003.002  
AUD.SSO.20190701: Application:2



39. An accountant has been engaged to compile a nonissuer's financial statements that contain several misapplications of accounting principles and unreasonable accounting estimates. Management is unwilling to revise the financial statements, and the accountant believes that modification of the standard compilation report is not adequate to communicate the deficiencies. Under these circumstances, the accountant should

A. Disclaim an opinion on the financial statements and advise the board of directors that the financial statements should **not** be relied upon.

B. Inform management that the engagement can proceed only if distribution of the accountant's compilation report is restricted to internal use.

C. Determine the effects of the deficiencies and add a separate paragraph to the compilation report that describes the deficiencies and their effects.

D. Withdraw from the compilation engagement and provide **no** further services concerning these financial statements.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 24477           |
| Key:              | D               |
| AUD.CSO.20190701: | AUD.004.003.002 |
| AUD.SSO.20190701: | Application:2   |

40. Which of the following matters is included in a typical comfort letter?

- A. Negative assurance on whether unaudited condensed financial information complies in form with the accounting requirements of the SEC.
- B. An opinion on whether any fraud risk factors indicate significant incentive and opportunity relating to fraudulent financial reporting.
- C. Positive assurance on whether there has been any change in capital stock or long-term debt since the date of the audited financial statements.
- D. An opinion on whether the entity's internal control components are operating as designed in achieving their stated objectives.

Item ID: 9929  
Key: A  
AUD.CSO.20190701: AUD.004.005.007  
AUD.SSO.20190701: Remembering and Understanding:1

**BEC**

1. A 20% target contribution margin is set for Duct, which is a new product with the following unit costs:

|                        |          |      |
|------------------------|----------|------|
| Manufacturing costs    | Variable | \$12 |
|                        | Fixed    | 8    |
| Selling & admin. Costs | Variable | \$3  |
|                        | Fixed    | 5    |

What is Duct's target selling price?

- A.\$18.00
- B. \$18.75
- C.\$25.00
- D.\$33.60

Item ID: 24883  
Key: B  
BEC.CSO.20190701: BEC.005.004.001  
BEC.SSO.20190701: Application:2

2. Below are data from the income statement of Brown, Inc:

|  |          |
|--|----------|
| Beginning inventory, finished goods        | \$16,000 |
| Ending inventory, finished goods           | 21,000   |
| Cost of goods sold                         | 43,000   |
| Gross margin from sales                    | 39,000   |
| Operating expenses – marketing and selling | 20,000   |
| Net income                                 | 19,000   |

What was Brown's cost of goods manufactured?

- A.\$37,000
- B.\$38,000
- C.\$48,000
- D.\$50,000

Item ID: 24909  
Key: C  
BEC.CSO.20190701: BEC.003.002.001  
BEC.SSO.20190701: Application:2

3. The expected selling price for a new product is \$19.00. Management's goal is to obtain a 20% contribution margin on all sales. If the new product has variable selling and distribution costs of \$3.00 per unit, what is the product's target variable manufacturing cost?

A.\$12.20

B.\$12.80

C.\$15.80

D.\$18.20

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 24929           |
| Key:              | A               |
| BEC.CSO.20190701: | BEC.005.002.001 |
| BEC.SSO.20190701: | Application:2   |

4. Smith Legal Services has offered to represent a plaintiff in a lawsuit for a retainer of \$20,000 plus 40% of any award over \$20,000. Smith expects to incur out-of-pocket expenditures of \$15,000 in litigating the suit. Possible court awards with their associated probabilities are:

| <u>Award</u> | <u>Probability</u> |
|--------------|--------------------|
| \$100,000    | 0.7                |
| \$0          | 0.3                |

What is the expected value to Smith of the lawsuit?

- A.\$25,900
- B.\$27,400
- C.\$33,000
- D.\$37,000

Item ID: 24931  
Key: B  
BEC.CSO.20190701: BEC.005.004.002  
BEC.SSO.20190701: Application:2

5. Grant Co.'s sales budget shows the following projections for the year ending December 31:

| <u>Quarter</u> | <u>Units</u>   |
|----------------|----------------|
| First          | 30,000         |
| Second         | 40,000         |
| Third          | 22,500         |
| Fourth         | <u>27,500</u>  |
| Total          | <u>120,000</u> |

Inventory at the beginning of the year was budgeted at 9,000 units. The quantity of finished goods inventory at the end of each quarter is to equal 30% of the next quarter's budgeted sales of units. What amount should the production budget show for units to be produced during the first quarter?

- A.36,000
- B.33,000
- C.24,000
- D.12,000

Item ID: 24933  
Key: B  
BEC.CSO.20190701: BEC.005.004.001  
BEC.SSO.20190701: Application:2



6. What term is used to represent unavoidable past costs that **cannot** be changed **no** matter what action is taken?

- A.Prime costs
- B.Sunk costs
- C.Opportunity costs
- D.Incremental costs

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 24941                           |
| Key:              | B                               |
| BEC.CSO.20190701: | BEC.003.003.000                 |
| BEC.SSO.20190701: | Remembering and Understanding:1 |

7. Spark Co. buys cordless phones for \$125 each and sells them for \$200 each. Spark pays a sales commission of \$25 per phone sold and monthly fixed costs are \$3,000. Assuming Spark desired a profit of 10% of sales, how many units must Spark sell?

A.600

B.400

C.200

D.100

Item ID: 24943  
Key: D  
BEC.CSO.20190701: BEC.005.004.002  
BEC.SSO.20190701: Application:2

8. A company that produces a single product using a continuous process had no work in process on April 1. During the month of April, 10,000 units were started and 9,000 completed units were transferred. The ending work-in-process inventory was complete as to materials and 50% complete as to conversion. The cost of direct materials was \$114,000, and the cost of direct labor amounted to \$38,000. Manufacturing overhead is assigned at the rate of 50% of direct materials. For the purpose of determining the cost of goods manufactured in April, what is the cost per equivalent whole unit?

A.\$23.22

B.\$21.40

C.\$20.90

D.\$15.40

Item ID: 24967  
Key: B  
BEC.CSO.20190701: BEC.005.002.001  
BEC.SSO.20190701: Application:2

9. Star Co. is a retail store specializing in contemporary furniture. The following information is taken from Star's June budget:

|  |           |
|--|-----------|
| Sales                                  | \$540,000 |
| Cost of goods sold                     | 300,000   |
| Merchandise inventory—June 1           | 150,000   |
| Merchandise inventory—June 30          | 180,000   |
| Accounts payable for purchases—June 1  | 85,000    |
| Accounts payable for purchases—June 30 | 75,000    |

What amount should Star budget for cash disbursements for June purchases?

- A.\$260,000
- B.\$280,000
- C.\$320,000
- D.\$340,000

Item ID: 24977  
Key: D  
BEC.CSO.20190701: BEC.003.002.001  
BEC.SSO.20190701: Application:2

10. Which of the following is a major difference between the just-in-time (JIT) and traditional approaches to manufacturing?

- A.The JIT approach usually involves a large number of suppliers while traditional approaches usually involve only a small number of suppliers.
- B.The JIT approach requires centralized purchasing while traditional approaches encourage purchasing decisions by production employees.
- C.The JIT approach uses a push-through system while traditional approaches use a pull-through system.
- D.The JIT approach operates with low inventory levels while traditional approaches may operate with high inventory levels.

Item ID: 24995  
Key: D  
BEC.CSO.20190701: BEC.005.003.001  
BEC.SSO.20190701: Remembering and Understanding:1

11. Match Co. manufactures a product with the following costs per unit, based on a maximum plant capacity of 400,000 units per year:

|                   |           |
|-------------------|-----------|
| Direct materials  | \$ 60     |
| Direct labor      | 10        |
| Variable overhead | 40        |
| Fixed overhead    | <u>30</u> |
| Total             | \$140     |

Match has a ready market for all 400,000 units at a selling price of \$200 each. Selling costs in this market consist of \$10 per unit shipping and a fixed licensing fee of \$50,000 per year. Reno Co. wishes to buy 5,000 of these units on a special order. There would be no shipping costs on this special order. What is the lowest price per unit at which Match should be willing to sell the 5,000 units to Reno?

- A.\$110
- B.\$140
- C.\$190
- D.\$200

Item ID: 25007  
Key: C  
BEC.CSO.20190701: BEC.005.004.002  
BEC.SSO.20190701: Application:2

12. Dawn Corp. uses a standard cost system. During the year, both the labor rate variance and the labor efficiency variance were unfavorable. Dawn wrote the variances off directly to cost of goods sold. If Dawn had allocated the variances to work in process, finished goods, and cost of goods sold instead, what would have been the effects on current ratio and net income?

| <u>Current ratio</u> | <u>Net income</u> |
|----------------------|-------------------|
| A.Increases          | Increases         |
| B.Increases          | Decreases         |
| C.Decreases          | Increases         |
| D.Decreases          | Decreases         |

Item ID: 25049  
Key: A  
BEC.CSO.20190701: BEC.005.002.001  
BEC.SSO.20190701: Application:2

13. The essence of responsibility accounting is

- A. Developing performance reports emphasizing costs and revenues that managers can control.
- B. Allocating service department costs to production departments so that production department managers know all costs for which they are responsible.
- C. Determining who is to blame for unfavorable variances.
- D. Investigating all variances, regardless of their status as favorable or unfavorable.

Item ID: 25061  
Key: A  
BEC.CSO.20190701: BEC.005.003.001  
BEC.SSO.20190701: Remembering and Understanding:1



14. A company sells DVD players for \$200 per unit. The players have a unit variable cost of \$160. The company estimates that it will sell one home entertainment system for every four DVD players sold. Home entertainment systems have a unit variable cost of \$460 and sell for \$600 per unit. The company's fixed costs are \$90,000. Assuming that the sales mix estimate is correct, how many DVD players need to be sold for the company to break even?

A.300

B.500

C.1,200

D.1,500

Item ID: 25079  
Key: C  
BEC.CSO.20190701: BEC.005.004.002  
BEC.SSO.20190701: Application:2

15. Skytop Co., a nonprofit entity, is considering acquiring a machine for \$80,000 that will produce uniform cash inflows of \$25,000 for four years. Skytop evaluates capital projects using discounted cash flows at a cost of capital of 10% per year. Based upon the following table, what action should Skytop take regarding acquisition of the machine, and why?

|  |         |
|--|---------|
| Future value of \$1 for 4 years at 10%                   | \$1.464 |
| Present value of \$1 for 4 years at 10%                  | \$0.683 |
| Future value of \$1 ordinary annuity for 4 years at 10%  | \$4.641 |
| Present value of \$1 ordinary annuity for 4 years at 10% | \$3.170 |

Acquire:      Reason:

- A.Yes      Net cash flow is \$20,000
- B.Yes      Net future value is \$36,025
- C.No      Net present value is (\$750)
- D.No      Net present value is (\$8,750)

Item ID:                      25081  
 Key:                              C  
 BEC.CSO.20190701:      BEC.003.003.000  
 BEC.SSO.20190701:      Application:2

16. Which of the following statements that relate to capital budgeting is true?

- A. The impact of taxes on capital budgeting will **not** make a difference in the decision to purchase new equipment.
- B. Accelerated methods of depreciation provide tax shields that are advantageous from a present-value point of view.
- C. The depreciation method used for financial accounting reporting and **not** the depreciation method used for tax purposes should be used in capital budgeting decisions.
- D. If the depreciable life of a project is shorter than the expected useful life of the project, then the anticipated after-tax cash flows should be evaluated over the depreciable life.

Item ID: 25087  
Key: B  
BEC.CSO.20190701: BEC.003.003.000  
BEC.SSO.20190701: Remembering and Understanding:1

17. Roger Co. implemented activity-based costing in the current year. To select the appropriate driver for Cost Pool A, Roger performed regression analyses for two independent variables, Driver 1 and Driver 2, using monthly operating data. The monthly levels of Cost Pool A were the dependent variables in both regressions. Output results from the regression analyses were as follows:

|                    | <u>Driver 1</u> | <u>Driver 2</u> |
|--------------------|-----------------|-----------------|
| R squared          | 0.46            | 0.80            |
| Intercept          | \$551.00        | \$970.00        |
| X variable (slope) | \$ 0.55         | \$ 0.33         |

At the budgeted production level for next month, the levels of Driver 1 and Driver 2 are expected to be 5,880 and 7,000, respectively. Based on this information, what is the budgeted amount for Cost Pool A for next month?

- A.\$2,624
- B.\$3,280
- C.\$3,464
- D.\$3,785

Item ID: 25181  
 Key: B  
 BEC.CSO.20190701: BEC.005.004.002  
 BEC.SSO.20190701: Application:2

18. Gamma Co., a manufacturer of medical products, had a 10% return on assets and an asset turnover of 4:1. What was Gamma's profit margin on sales?

A.40.0%

B.10.0%

C. 4.0%

D. 2.5%

Item ID: 25229  
Key: D  
BEC.CSO.20190701: BEC.005.001.000  
BEC.SSO.20190701: Application:2

19. What is the process by which products and services of a business entity are measured and evaluated relative to the best possible levels of performance?

A.Measuring the performance gap

B.Standard measurement

C.Benchmarking

D.Variance management

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 25233                           |
| Key:              | C                               |
| BEC.CSO.20190701: | BEC.005.003.002                 |
| BEC.SSO.20190701: | Remembering and Understanding:1 |

20. The following information pertains to Baxter Co:

|                                    |           |
|------------------------------------|-----------|
| Inventory at beginning of year     | \$200,000 |
| Inventory at year end              | \$300,000 |
| Cost of goods sold during the year | \$500,000 |

What was Baxter's inventory turnover for the year?

- A.1.0
- B.1.5
- C.2.0
- D.2.5

Item ID: 25273  
Key: C  
BEC.CSO.20190701: BEC.003.002.001  
BEC.SSO.20190701: Application:2

21. How would the following ratios or measures be affected if a company issued additional capital stock for cash?

Total debt to  
total assets

Working capital

A.Increase

Increase

B.Increase

Decrease

C.Decrease

Increase

D.Decrease

Decrease

Item ID:

25279

Key:

C

BEC.CSO.20190701:

BEC.003.003.000

BEC.SSO.20190701:

Application:2



22. Darv Co. had a current ratio of 3-to-1 and a quick ratio of 1-to-1. Current liabilities were \$322,000. What was the total amount for inventory and prepaid expenses?

- A.\$322,000
- B.\$644,000
- C.\$966,000
- D.\$1,288,000

Item ID: 25309  
Key: B  
BEC.CSO.20190701: BEC.003.002.001  
BEC.SSO.20190701: Application:2

23. Which of the following is an essential element of the audit trail in an electronic data interchange (EDI) system?

- A. An integrated test facility that verifies the accuracy of data.
- B. A heuristic program that accesses remote locations.
- C. Hardware security modules that store sensitive data.
- D. Computer activity logs that indicate failed transactions.

Item ID: 25327  
Key: D  
BEC.CSO.20190701: BEC.004.001.002  
BEC.SSO.20190701: Remembering and Understanding:1

24. Carter Co. had the following items on its balance sheet at the end of the current year:

|                           |            |
|---------------------------|------------|
| Cash and cash equivalents | \$ 200,000 |
| Short-term investments    | 100,000    |
| Accounts receivable       | 400,000    |
| Inventories               | 600,000    |
| Patent—10 years           | 300,000    |
| Equipment                 | 1,000,000  |
| Accumulated depreciation  | 200,000    |

The amount of current liabilities at the end of the current year was \$640,000. What is Carter's working capital at the end of the current year?

- A.\$60,000
- B.\$560,000
- C.\$660,000
- D.\$960,000

Item ID: 25349  
Key: C  
BEC.CSO.20190701: BEC.003.002.001  
BEC.SSO.20190701: Application:2

25. An issuer's board of directors would ordinarily participate in each of the following activities, **except**

- A. Establishing long-term strategy and objectives to which their information technology system should be aligned.
- B. Supervising and monitoring the quality control testing upon the installation of a new information technology system.
- C. Ensuring that suitable information technology resources and skills are available to meet the company's strategic objectives.
- D. Maintaining awareness of current technology used by the organization to assure its efficiency and effectiveness for financial reporting.

Item ID: 39989  
Key: B  
BEC.CSO.20190701: BEC.004.001.001  
BEC.SSO.20190701: Remembering and Understanding:1

**FAR**

1. Accrual accounting involves accruals and deferrals. Which of the following best describes accruals and deferrals?

A. Accruals are concerned with expected future cash receipts and payments, while deferrals are concerned with past cash receipts and payments.

B. Accruals are concerned with past cash receipts and payments, while deferrals are concerned with expected future cash receipts and payments.

C. Both accruals and deferrals are concerned with expected future cash receipts and payments.

D. Both accruals and deferrals are concerned with past cash receipts and payments.

Item ID: 42541  
Key: A  
FAR.CSO.20190701: FAR.001.001.001  
FAR.SSO.20190701: Remembering and Understanding:1

2. During the current year, Cooley Co. had an unrealized gain of \$100,000 on a debt investment classified as available-for-sale. Cooley's corporate tax rate is 25%. What amount of the gain should be included in Cooley's net income and other comprehensive income at the end of the current year?

| <u>Net income</u> | <u>Other comprehensive income</u> |
|-------------------|-----------------------------------|
| A.\$100,000       | \$0                               |
| B.\$75,000        | \$25,000                          |
| C.\$25,000        | \$75,000                          |
| D.\$0             | \$75,000                          |

Item ID: 42691  
Key: D  
FAR.CSO.20190701: FAR.001.002.003  
FAR.SSO.20190701: Application:2

3. During the year, Verity Co. purchased \$200,000 of Otra Co. bonds at par and \$50,000 of U.S. Treasury bills. Verity classified the Otra bonds as available-for-sale securities and the Treasury bills as cash equivalents. In Verity's statement of cash flows, what amount should it report as net cash used in investing activities?

A.\$0

B.\$150,000

C.\$200,000

D.\$250,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 41323           |
| Key:              | C               |
| FAR.CSO.20190701: | FAR.001.002.005 |
| FAR.SSO.20190701: | Application:2   |



4. Ace Co. issued 1,000 shares of its \$10 par value common stock for \$15 per share in cash. How should this transaction be reported in Ace's statement of cash flows for the year of issuance?

A.\$15,000 cash inflow from financing activities.

B.\$10,000 cash inflow from financing activities and \$5,000 adjustment to arrive at cash flows from operating activities.

C.\$15,000 cash flow from investing activities.

D.\$10,000 cash flow from investing activities and \$5,000 adjustment to arrive at cash flows from operating activities.

Item ID: 41547  
Key: A  
FAR.CSO.20190701: FAR.001.002.005  
FAR.SSO.20190701: Application:2

5. Strut Co. has a payable to its parent, Plane Co. In which of the following balance sheets should this payable be reported separately?

Strut's  
balance sheet

Plane's consolidated  
balance sheet

A.Yes

Yes

B.Yes

No

C.No

Yes

D.No

No

Item ID:

40871

Key:

B

FAR.CSO.20190701:

FAR.001.002.007

FAR.SSO.20190701:

Remembering and Understanding:1

6. The primary purpose of a not-for-profit organization's statement of activities is to provide relevant information to its

- A.Resource providers.
- B.Managers.
- C.Beneficiaries.
- D.State regulatory body.

Item ID: 40659  
Key: A  
FAR.CSO.20190701: FAR.001.003.002  
FAR.SSO.20190701: Remembering and Understanding:1

7. Financial statements prepared by a voluntary health and welfare nongovernmental not-for-profit organization must report expenses by the following classification(s):

| <u>Functional</u> | <u>Natural</u> |
|-------------------|----------------|
|-------------------|----------------|

|       |     |
|-------|-----|
| A.Yes | Yes |
|-------|-----|

|       |    |
|-------|----|
| B.Yes | No |
|-------|----|

|      |     |
|------|-----|
| C.No | Yes |
|------|-----|

|      |    |
|------|----|
| D.No | No |
|------|----|

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 41061                           |
| Key:              | A                               |
| FAR.CSO.20190701: | FAR.001.003.002                 |
| FAR.SSO.20190701: | Remembering and Understanding:1 |

8. Zokro, a nongovernmental not-for-profit organization, uses the indirect method to prepare its statement of cash flows. In determining its net cash provided (used) by operating activities, Sokro must add back which of the following to the change in net assets?

- A. Purchase of equipment.
- B. Payment on long-term debt.
- C. Depreciation.
- D. Decrease in accounts payable.

Item ID: 42057  
Key: C  
FAR.CSO.20190701: FAR.001.003.003  
FAR.SSO.20190701: Remembering and Understanding:1

9. Box, a nongovernmental not-for-profit organization, had the following transactions during the year:

|   |           |
|---|-----------|
| Proceeds from sale of investments         | \$80,000  |
| Purchase of property, plant and equipment | \$10,000  |
| Proceeds from long-term debt              | \$100,000 |
| Loss on sale of investment                | \$5,000   |

What amount should be reported as net cash provided by financing activities in Box's statement of cash flows?

- A.\$70,000
- B.\$75,000
- C.\$80,000
- D.\$100,000

Item ID: 41867  
Key: D  
FAR.CSO.20190701: FAR.001.003.003  
FAR.SSO.20190701: Application:2

10. Toft Co. had 120,000 shares of common stock outstanding at January 1. On April 1, it issued 40,000 additional shares of common stock. Outstanding all year were 10,000 shares of nonconvertible preferred stock on which a dividend of \$5 per share was declared during the year. Net income for the year was \$480,000. What should Toft report as earnings per share for the year?

A.\$2.69

B.\$2.87

C.\$3.00

D.\$3.20

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 40727           |
| Key:              | B               |
| FAR.CSO.20190701: | FAR.001.004.000 |
| FAR.SSO.20190701: | Application:2   |

11. Swift Co. has identified three operating segments that may require separate disclosure in Swift's general purpose financial statements for the year ended December 31, year 2. Information for year 2 follows:

|                       | <u>Segment (in thousands)</u> |          |          |              |
|-----------------------|-------------------------------|----------|----------|--------------|
|                       | <u>A</u>                      | <u>B</u> | <u>C</u> | <u>Total</u> |
| Reported revenue      | \$ 42                         | \$ 121   | \$ 14    | \$ 177       |
| Reported profit(loss) | \$ 12                         | \$ 65    | \$ (3)   | \$ 74        |
| Assets                | \$ 470                        | \$ 800   | \$ 80    | \$ 1,350     |

Which of Swift's segments are required to be separately disclosed in its December 31, year 2, financial statements?

- A. A and B only.
- B. A and C only.
- C. B and C only.
- D. A, B, and C.

Item ID: 41375  
 Key: A  
 FAR.CSO.20190701: FAR.001.004.000  
 FAR.SSO.20190701: Application:2



12. Sussman Co. prepared cash-basis financial statements for the month ended January 31. A summary of Sussman's January activities follows:

Credit sales of \$5,600.

Collections of \$1,900 relating to January credit sales.

Accrued salaries of \$1,200.

By what amount will Sussman's cash-basis income for the month ended January 31 increase as a result of restating these activities to the accrual basis of accounting?

A.\$2,500

B.\$3,700

C.\$4,400

D.\$4,900

Item ID: 41359  
Key: A  
FAR.CSO.20190701: FAR.001.006.000  
FAR.SSO.20190701: Application:2

13. Bailey Co. changed the accounting for insurance expense from the cash basis to the accrual basis in the current year. In January of the prior year, Bailey recorded insurance expense of \$240,000 for the cash purchase of a four-year insurance policy. How should Bailey report the insurance transaction in the current year's financial statements?

A.As a \$180,000 debit to prepaid insurance.

B.As a \$60,000 debit to insurance expense.

C.As a \$60,000 debit to insurance expense, a \$120,000 debit to prepaid asset, and \$180,000 credit to retained earnings.

D.As a \$180,000 debit to insurance expense, a \$120,000 credit to prepaid asset, and \$60,000 credit to retained earnings.

Item ID: 42425  
Key: C  
FAR.CSO.20190701: FAR.001.006.000  
FAR.SSO.20190701: Application:2

14. Rune Co.'s checkbook balance on December 31, was \$10,000. On that date, Rune held the following items in its safe:

\$4,000 check payable to Rune, postdated January 3, and not included in the December 31 checkbook balance, in collection of a sale made in December.

\$1,000 check payable to Rune, deposited December 15 and included in the December 31 checkbook balance, but returned by the bank on December 30 stamped "NSF". The check was redeposited on January 2, and cleared on January 9.

What amount should Rune report as cash in its December 31, balance sheet?

- A.\$9,000
- B.\$10,000
- C.\$13,000
- D.\$14,000

Item ID: 40755  
Key: A  
FAR.CSO.20190701: FAR.002.001.000  
FAR.SSO.20190701: Application:2

15. Mast Co. converted from the FIFO method for inventory valuation to the LIFO method for financial statement and tax purposes. During a period of inflation, would Mast's ending inventory and income tax payable using LIFO be higher or lower than FIFO?

|    | <u>Ending inventory</u> | <u>Income tax payable</u> |
|----|-------------------------|---------------------------|
| A. | Lower                   | Lower                     |
| B. | Higher                  | Higher                    |
| C. | Lower                   | Higher                    |
| D. | Higher                  | Lower                     |

Item ID: 42463  
Key: A  
FAR.CSO.20190701: FAR.002.003.000  
FAR.SSO.20190701: Application:2

16. Stone Co. had the following consignment transactions during December year 1:

|  |          |
|--|----------|
| Inventory shipped on consignment to Omega Co.    | \$36,000 |
| Freight paid by Stone                            | \$1,800  |
| Inventory received on consignment from Gamma Co. | \$24,000 |
| Freight paid by Gamma                            | \$1,000  |

No sales of consigned goods were made through December 31, year 1. What amount of consigned inventory should be included in Stone's December 31, year 1, balance sheet?

- A.\$24,000
- B.\$25,000
- C.\$36,000
- D.\$37,800

Item ID: 41081  
Key: D  
FAR.CSO.20190701: FAR.002.003.000  
FAR.SSO.20190701: Application:2

17. Cobb, Inc.'s inventory at May 1 consisted of 200 units at a total cost of \$1,250. Cobb uses the periodic inventory method. Purchases for the month were as follows:

| <u>Date</u> | <u>No. of Units</u> | <u>Unit cost</u> | <u>Total Cost</u> |
|-------------|---------------------|------------------|-------------------|
| May 4       | 20                  | \$5.80           | \$116.00          |
| May 17      | 80                  | \$5.50           | \$440.00          |

Cobb sold 10 units on May 14 for \$120. What is Cobb's weighted average cost of goods sold for May?

- A.\$60.20
- B.\$62.10
- C.\$62.50
- D.\$65.00

Item ID: 41391  
Key: A  
FAR.CSO.20190701: FAR.002.003.000  
FAR.SSO.20190701: Application:2

18. Ultra Co. uses a periodic inventory system. The following are inventory transactions for the month of January:

|      |                        |                      |
|------|------------------------|----------------------|
| 1/1  | Beginning inventory    | 20,000 units at \$13 |
| 1/20 | Purchase               | 30,000 units at \$15 |
| 1/23 | Purchase               | 40,000 units at \$17 |
| 1/31 | Sales at \$20 per unit | 50,000 units         |

Ultra uses the LIFO method to determine the value of its inventory. What amount should Ultra report as cost of goods sold on its income statement for the month of January?

- A.\$710,000
- B.\$750,000
- C.\$830,000
- D.\$1,000,000

Item ID: 42811  
Key: C  
FAR.CSO.20190701: FAR.002.003.000  
FAR.SSO.20190701: Application:2

19. Pine Co. purchased land for \$450,000 as a factory site. An existing building on the site was razed before construction began. Additional information is as follows:

|   |             |
|---|-------------|
| Cost of razing old building                     | \$60,000    |
| Title insurance and legal fees to purchase land | \$30,000    |
| Architect's fees                                | \$95,000    |
| New building construction cost                  | \$1,850,000 |

What amount should Pine capitalize as the cost of the completed factory building?

- A.\$2,005,000
- B.\$1,975,000
- C.\$1,945,000
- D.\$1,910,000

Item ID: 42307  
Key: C  
FAR.CSO.20190701: FAR.002.004.000  
FAR.SSO.20190701: Application:2



20. Smile, Inc. purchased a computer on May 1, for \$12,000 with an estimated salvage value of \$1,500 and a 3-year life. What is the depreciation expense for the year ended December 31, using the double-declining method of depreciation?

A.\$8,000

B.\$7,000

C.\$5,333

D.\$4,667

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 41739           |
| Key:              | C               |
| FAR.CSO.20190701: | FAR.002.004.000 |
| FAR.SSO.20190701: | Application:2   |

21. Hall Co. purchased a machine on January 1 at a cost of \$140,000. The machine had an estimated useful life of eight years and a salvage value of \$60,000. Hall chose to depreciate the machine using the double-declining balance method. What was the carrying amount of the machine in Hall's balance sheet at the end of its second year of operations?

A.\$60,000

B.\$61,250

C.\$78,750

D.\$80,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 42523           |
| Key:              | C               |
| FAR.CSO.20190701: | FAR.002.004.000 |
| FAR.SSO.20190701: | Application:2   |

22. Dodd Co.'s debt securities at December 31 included available-for-sale securities with a cost basis of \$24,000 and a fair value of \$30,000. Dodd's income tax rate was 20%. What amount of unrealized gain or loss should Dodd recognize in its income statement at December 31?

A.\$6,000 loss.

B.\$0

C.\$4,800 gain.

D.\$6,000 gain.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 42443           |
| Key:              | B               |
| FAR.CSO.20190701: | FAR.002.005.001 |
| FAR.SSO.20190701: | Application:2   |

23. Goll Co. has a 25% interest in the common stock of Rose Co. and an 18% interest in the common stock of Jave Co. Neither investment gives Goll the ability to exercise significant influence over either company's operating and financial policies. Which of the two investments should Goll account for using the equity method?

- A.Both Rose and Jave.
- B.Rose only.
- C.Jave only.
- D.Neither Rose nor Jave.

Item ID: 41631  
Key: D  
FAR.CSO.20190701: FAR.002.005.003  
FAR.SSO.20190701: Remembering and Understanding:1

24. Bay Co. incurred legal fees in defending its patent rights. These legal fees should be capitalized when the outcome of the litigation is

|       | <u>Successful</u> | <u>Unsuccessful</u> |
|-------|-------------------|---------------------|
| A.Yes | Yes               |                     |
| B.Yes | No                |                     |
| C.No  | No                |                     |
| D.No  | Yes               |                     |

Item ID: 42399  
Key: B  
FAR.CSO.20190701: FAR.002.006.000  
FAR.SSO.20190701: Remembering and Understanding:1

25. Corbet Co. purchased a copyright near the beginning of the current year from an author for \$20,000. The legal life of the copyright is equivalent to the life of the author plus 50 years. Corbet expects to sell the book for five years. What amount should Corbet report as amortization expense related to the copyright at the end of the current year?

- A.\$0
- B.\$400
- C.\$500
- D.\$4,000

Item ID: 42665  
Key: D  
FAR.CSO.20190701: FAR.002.006.000  
FAR.SSO.20190701: Application:2

26. The following information pertains to Dash Co.'s utility bills:

| <u>Period covered</u> | <u>Amount</u> | <u>Date paid</u> |
|-----------------------|---------------|------------------|
| April 16 – May 15     | \$5,000       | June 1           |
| May 16 – June 15      | \$6,000       | July 1           |
| June 16 – July 15     | \$8,000       | August 1         |

What is the amount that Dash should report as a liability in its June 30 balance sheet?

- A.\$6,000
- B.\$7,000
- C.\$10,000
- D.\$14,000

Item ID: 41845  
Key: C  
FAR.CSO.20190701: FAR.002.007.000  
FAR.SSO.20190701: Application:2

27. Under state law, Boca Co. may reimburse the state directly for actual unemployment claims or it may pay 3% of eligible gross wages. Boca believes that actual unemployment claims will be 2% of eligible gross wages, and has chosen to reimburse the state. Eligible gross wages are defined as the first \$15,000 of gross wages paid to each employee. Boca had four employees, each of whom earned \$20,000 during the year. What amount should Boca report as accrued liability for unemployment claims in its year-end balance sheet?

A.\$1,200

B.\$1,600

C.\$1,800

D.\$2,400

Item ID: 40915  
Key: A  
FAR.CSO.20190701: FAR.002.007.000  
FAR.SSO.20190701: Application:2



28. On July 1, year 7, Dean Co. issued, at a premium, bonds with a due date of July 1, year 12. Dean incorrectly used the straight-line method instead of the effective interest method to amortize the premium. How were the following amounts affected by the error at June 30, year 12?

| <u>Bond carrying amount</u> | <u>Retained earnings</u> |
|-----------------------------|--------------------------|
| A. Overstated               | Understated              |
| B. Understated              | Overstated               |
| C. Overstated               | No effect                |
| D. No effect                | No effect                |

Item ID: 40935  
Key: D  
FAR.CSO.20190701: FAR.002.008.001  
FAR.SSO.20190701: Application:2

29. On July 1, Alto Co. split its common stock 5 for 1 when the fair value was \$100 per share. Prior to the split, Alto had 10,000 shares of \$10 par value common stock issued and outstanding. After the split, the par value of the stock

- A. Remained at \$10.
- B. Was reduced to \$8.
- C. Was reduced to \$5.
- D. Was reduced to \$2.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 41183           |
| Key:              | D               |
| FAR.CSO.20190701: | FAR.002.009.000 |
| FAR.SSO.20190701: | Application:2   |

30. Elan Co. has two employees. Each employee receives two weeks of paid vacation each year. Vacation rights accumulate. One employee, whose weekly salary is \$600, took a two-week vacation during the year, but the other employee, who earns \$800 per week, took no vacation during the year. In its year-end financial statements, what amount should Elan report as vacation liability and expense?

- A. \$1,600                      \$1,200
- B. \$1,600                      \$2,800
- C. \$0                              \$1,200
- D. \$0                              \$2,800

Item ID:                              40979  
Key:                                      B  
FAR.CSO.20190701:              FAR.002.011.001  
FAR.SSO.20190701:              Application:2

31. Holt Co. discovered that in the prior year, it failed to report \$40,000 of depreciation related to a newly constructed building. The depreciation was computed correctly for tax purposes. The tax rate for the current year was 20%. How should Holt report the correction of error in the current year?

- A. As an increase in accumulated depreciation of \$32,000.
- B. As an increase in accumulated depreciation of \$40,000.
- C. As an increase in depreciation expense of \$32,000.
- D. As an increase of depreciation expense of \$40,000.

Item ID: 42683  
Key: B  
FAR.CSO.20190701: FAR.003.001.000  
FAR.SSO.20190701: Application:2

32. Mill Co. reported pretax income of \$152,500 for the year ended December 31. During the year-end audit, the external auditors discovered the following errors:

Ending inventory  
\$30,000 overstated

Depreciation expense  
\$64,000 understated

What amount should Mill report as the correct pretax income for the year ended December 31?

- A.\$58,500
- B.\$118,500
- C.\$186,500
- D.\$246,500

Item ID: 42485  
Key: A  
FAR.CSO.20190701: FAR.003.001.000  
FAR.SSO.20190701: Application:2

33. Arno Co. did not record a credit purchase of merchandise made prior to year end. However, the merchandise was correctly included in the year-end physical inventory. What effect did the omission of reporting the purchase of merchandise have on Arno's balance sheet at year end?

| <u>Assets</u> | <u>Liabilities</u> |
|---------------|--------------------|
| A.No effect   | No effect          |
| B.No effect   | Understated        |
| C.Understated | No effect          |
| D.Understated | Understated        |

Item ID: 42273  
Key: B  
FAR.CSO.20190701: FAR.003.001.000  
FAR.SSO.20190701: Application:2

34. Prior to the issuance of its December 31 financial statements, Stark Co. was named as a defendant in a lawsuit arising from an event that occurred in October. Stark's legal counsel believes that it is reasonably possible that there will be an unfavorable outcome and that damages will range from \$100,000 to \$150,000. Which amount(s) should Stark accrue and/or disclose in its December 31 financial statements?

Accrue contingent liability

Disclose contingent liability

- |              |                       |
|--------------|-----------------------|
| A. \$100,000 | \$100,000 - \$150,000 |
| B. \$100,000 | \$150,000             |
| C. \$0       | \$100,000 - \$150,000 |
| D. \$0       | \$150,000             |

Item ID: 41475  
Key: C  
FAR.CSO.20190701: FAR.003.003.000  
FAR.SSO.20190701: Application:2

35. Dari, Inc. guaranteed the debt of a related party. In December, Dari learned that it is probable it will be required to pay between \$150,000 and \$200,000 within the next six months in satisfaction of its guarantee, but no amount within that range is more likely. What amount of contingent liability should Dari accrue in its December 31 balance sheet?

A.\$200,000

B.\$175,000

C.\$150,000

D.\$0

Item ID: 41469  
Key: C  
FAR.CSO.20190701: FAR.003.003.000  
FAR.SSO.20190701: Application:2



36. True Co. did not record an accrual for a probable loss from a lawsuit in its financial statements. Which of the following explanations for True's **not** accruing the probable loss is in accordance with generally accepted accounting principles?

A.No reasonable estimate of the loss can be made.

B.An estimated range for the loss can be made but **no** amount in the range is more accurate than any other amount.

C.Recognizing an amount in its financial statements would weaken the company's defense of the lawsuit.

D.Accrual was **not** required because an estimated amount of the loss was disclosed in the notes to the financial statements.

Item ID: 40787  
Key: A  
FAR.CSO.20190701: FAR.003.003.000  
FAR.SSO.20190701: Remembering and Understanding:1

37. Which of the following financial instruments may be considered a derivative financial instrument?

- A.Option contract.
- B.Municipal bond.
- C.Bank certificate of deposit.
- D.Money market fund.

Item ID: 40711  
Key: A  
FAR.CSO.20190701: FAR.003.004.000  
FAR.SSO.20190701: Remembering and Understanding:1

38. Mentor Co., a U.S. corporation, owned 100% of a Swiss corporation. The Swiss franc is the functional currency. The remeasurement of Mentor's financial statements resulted in a \$25,000 gain at year end. The translation of the financial statements resulted in a \$40,000 gain at year end. What amount should Mentor recognize as foreign currency gain in its income statement?

- A.\$0
- B.\$25,000
- C.\$40,000
- D.\$65,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 42153           |
| Key:              | B               |
| FAR.CSO.20190701: | FAR.003.005.000 |
| FAR.SSO.20190701: | Application:2   |

39. Brill Co. made the following expenditures relating to Product X:

|  |           |
|--|-----------|
| Labor and material costs incurred in producing a prototype | \$100,000 |
| Cost of testing the prototype                              | \$40,000  |
| Legal costs to file a patent                               | \$5,000   |

Production of Product X commenced when the patent was granted. What amount of the above costs should be expensed as research and development costs?

- A.\$40,000
- B.\$100,000
- C.\$140,000
- D.\$145,000

Item ID: 40863  
Key: C  
FAR.CSO.20190701: FAR.003.008.000  
FAR.SSO.20190701: Application:2

40. Aln Co. incurred the following expenses during the current period:

|   |           |
|---|-----------|
| Routine on-going efforts to improve an existing product                               | \$50,000  |
| Trouble-shooting in connection with breakdowns during commercial production           | \$75,000  |
| Routine testing of products during commercial production for quality-control purposes | \$100,000 |

What is the total amount of research and development expense incurred by Aln during the current period?

- A.\$0
- B.\$75,000
- C.\$125,000
- D.\$175,000

Item ID: 42885  
Key: A  
FAR.CSO.20190701: FAR.003.008.000  
FAR.SSO.20190701: Application:2

41. During year 2, Pipp Co. incurred the following costs to develop and produce a routine, low-risk computer software product:

|  |          |
|--|----------|
| Completion of detailed program design  | \$10,000 |
| Costs incurred for coding and testing to establish technological feasibility             | \$15,000 |
| Other coding and testing costs incurred after establishment of technological feasibility | \$44,000 |

In Pipp's December 31, year 2, balance sheet, what amount should be capitalized as software cost?

- A.\$10,000
- B.\$25,000
- C.\$44,000
- D.\$59,000

Item ID: 40763  
Key: C  
FAR.CSO.20190701: FAR.003.009.000  
FAR.SSO.20190701: Application:2

42. Which characteristic of information in the statistical tables included in a comprehensive annual financial report differentiates it from information contained in the financial statements?

Data covering  
financial trends

Fiscal years

- |        |     |
|--------|-----|
| A. Yes | Yes |
| B. Yes | No  |
| C. No  | Yes |
| D. No  | No  |

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 41043                           |
| Key:              | A                               |
| FAR.CSO.20190701: | FAR.004.001.001                 |
| FAR.SSO.20190701: | Remembering and Understanding:1 |

43. The city of Cobb has two trust funds for the benefit of the city's library, trust fund A and trust fund B. Only the earnings from trust fund A can be expended and both the principal and interest from trust fund B can be expended. How should the city of Cobb report each trust fund?

Trust fund A

Trust fund B

A. Permanent

Permanent

B. Permanent

Special revenue

C. Special revenue

Permanent

D. Special revenue

Special revenue

Item ID:

42035

Key:

B

FAR.CSO.20190701:

FAR.004.001.003

FAR.SSO.20190701:

Application:2



44. The City of Windemere decided to construct several large windmills to generate electrical power. The construction was financed through a general residential property tax levy for the next ten years. Utility revenues are intended to offset all expenses associated with the windmills. The land for the windmills was donated to the city by a local farmer. The land from the farmer should be reported in which fund type?

A.Special revenue.

B.Capital projects.

C.Enterprise.

D.Permanent.

Item ID: 41279  
Key: C  
FAR.CSO.20190701: FAR.004.001.003  
FAR.SSO.20190701: Application:2

45. In the statement of activities for a governmental entity, revenues such as charges for building permits, garbage collection, and dog licenses are reported as which of the following?

- A. Program revenues in the category "Capital Grants and Contributions."
- B. Program revenues in the category "Charges for Services."
- C. General revenues in the category "Charges for Services."
- D. General revenues in the category "Capital Grants and Contributions."

Item ID: 41799  
Key: B  
FAR.CSO.20190701: FAR.004.002.001  
FAR.SSO.20190701: Remembering and Understanding:1

46. The statement of activities in the government-wide financial statements includes which of the

- A. Separate columns for governmental activities, business-type activities and discretely presented component units.
- B. Separate columns for each major governmental fund.
- C. Separate columns for each nonmajor governmental fund.
- D. A separate section at the bottom of the statement that shows program and general revenues.

Item ID: 41427  
Key: A  
FAR.CSO.20190701: FAR.004.002.001  
FAR.SSO.20190701: Remembering and Understanding:1

47. Best County's capital projects fund had the following receipts during the year:

|   |           |
|---|-----------|
| Transfer from the general fund              | \$100,000 |
| Federal capital grant                       | \$75,000  |
| Special assessment for capital improvements | \$300,000 |

What amount of revenues should Best County report in its capital projects fund at the end of the year?

- A.\$75,000
- B.\$300,000
- C.\$375,000
- D.\$475,000

Item ID: 41965  
Key: C  
FAR.CSO.20190701: FAR.004.002.002  
FAR.SSO.20190701: Application:2

48. Large City does not use the modified approach to account for roads. At the beginning of the current year, the city spent \$800,000 on new roads. The roads have a 20-year useful life. What amount should Large City report as an expense related to the new roads in the statement of activities for the current year?

A.\$0

B.\$20,000

C.\$40,000

D.\$800,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 42215           |
| Key:              | C               |
| FAR.CSO.20190701: | FAR.004.004.003 |
| FAR.SSO.20190701: | Application:2   |

49. Zarr Town levied property taxes of \$500,000, of which 1% is expected to be uncollectible. During the year, Zarr Town collected \$450,000. What amount of property tax revenue should Zarr Town report in its government-wide statement of activities for the current year?

- A.\$0
- B.\$450,000
- C.\$495,000
- D.\$500,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 42029           |
| Key:              | C               |
| FAR.CSO.20190701: | FAR.004.004.006 |
| FAR.SSO.20190701: | Application:2   |

50. In the current year, Poplar City paid \$5,000 interest and \$20,000 principal on its outstanding general obligation bonds. The payment was made from a debt service fund using cash transferred earlier the same year from the general fund. How should the city report the expenditures?

| <u>General fund</u> | <u>Debt service fund</u> | <u>Permanent fund</u> |
|---------------------|--------------------------|-----------------------|
| A.\$25,000          | \$25,000                 | \$0                   |
| B.\$0               | \$25,000                 | \$20,000              |
| C.\$25,000          | \$5,000                  | \$0                   |
| D.\$0               | \$25,000                 | \$0                   |

Item ID: 41027  
Key: D  
FAR.CSO.20190701: FAR.004.004.007  
FAR.SSO.20190701: Application:2

**REG**



1. If a CPA recklessly departs from the standards of due care when conducting an audit, the CPA will be liable to third parties who are unknown to the CPA under the law of

- A. Strict liability.
- B. Breach of contract.
- C. Negligence.
- D. Gross negligence.

Item ID: 56475  
Key: D  
REG.CSO.20190701: REG.001.004.001  
REG.SSO.20190701: Remembering and Understanding:1

2. Which of the following defenses is likely to be successful in a suit alleging negligence by a CPA?

A. Due care.

B. Ignorance of the law.

C. Lack of intent.

D. Lack of mental capacity.

|                   |                                 |
|-------------------|---------------------------------|
| Item ID:          | 57871                           |
| Key:              | A                               |
| REG.CSO.20190701: | REG.001.004.001                 |
| REG.SSO.20190701: | Remembering and Understanding:1 |

3. Which of the following pairs of elements must a client prove to hold an accountant liable for common law fraud?

A. Material misrepresentation and breach of contract.

B. Freedom from contributory negligence and loss.

C. *Scienter* and justifiable reliance.

D. Intent to deceive and privity.

Item ID: 56465  
Key: C  
REG.CSO.20190701: REG.001.004.001  
REG.SSO.20190701: Remembering and Understanding:1

4. To which of the following parties will a CPA be liable if the CPA fraudulently issues an unqualified opinion on a corporation's materially misstated financial statements?

Corporate shareholders

Corporate bondholders

- |    |     |     |
|----|-----|-----|
| A. | Yes | Yes |
| B. | Yes | No  |
| C. | No  | Yes |
| D. | No  | No  |

Item ID: 58613  
Key: A  
REG.CSO.20190701: REG.001.004.001  
REG.SSO.20190701: Remembering and Understanding:1

5. Which of the following transactions correctly illustrates the doctrine of substantial performance?

A. Blair ordered a dozen blue chairs from Kyle, but Kyle delivered a dozen red chairs.

B. Leslie painted an entire room but failed to put the electrical outlet covers back on.

C. A contract required hair styling to be done to Toby's satisfaction, but Toby was, in good faith, dissatisfied with the completed result.

D. A dentist competently completed the extraction of Lee's tooth but mistakenly pulled the wrong one.

Item ID: 60099  
Key: B  
REG.CSO.20190701: REG.002.002.002  
REG.SSO.20190701: Application:2

6. Which of the following circumstances generally will cause a discharge of contractual duties by operation of law?

A. Novation.

B. Accord and satisfaction.

C. Anticipatory repudiation.

D. Impossibility of performance.

Item ID: 59495  
Key: D  
REG.CSO.20190701: REG.002.002.003  
REG.SSO.20190701: Remembering and Understanding:1

7. Brown cosigned Royal's \$50,000 note to State Bank. If Royal is later adjudicated mentally incompetent, what would be Brown's liability on the note?

A.Liable to pay State on the due date of the note.

B.Liable to pay State only if State first seeks payment from Royal.

C.Not liable to pay State because Royal's incompetency discharges Royal as a surety.

D.Not liable to pay State **unless** Brown was a compensated surety.

Item ID: 56997  
Key: A  
REG.CSO.20190701: REG.002.003.001  
REG.SSO.20190701: Application:2

8. Which of the following statements is correct regarding the Federal Unemployment Tax Act?
- A. An employee, who resigns, regardless of cause, is eligible for unemployment benefits.
  - B. The federal unemployment system is funded by both employer and employee taxes.
  - C. The Act is intended to assist workers who are permanently out of work and need assistance in supporting themselves.
  - D. The unemployment insurance system is administered by the states through their employment laws.

Item ID: 58727  
Key: D  
REG.CSO.20190701: REG.002.004.002  
REG.SSO.20190701: Remembering and Understanding:1



9. A partner in a general partnership is usually **not** entitled to which of the following?

A.To participate in management.

B.To review accounting records.

C.To enter into a contract with a third party without the consent of the other partners.

D.To be liable only for personal negligence.

Item ID: 73107

Key: D

REG.CSO.20190701: REG.002.005.002

REG.SSO.20190701: Remembering and Understanding:1

10. Which of the following statements is correct regarding a shareholder's right to inspect corporate books and records? The right

- A. Is absolute.
- B. Is conditioned upon the demanding shareholder owning at **least** \$5,000 worth of stock.
- C. Requires that the demand to inspect be for a proper purpose.
- D. Exists only when fraud or illegality is alleged.

Item ID: 60325  
Key: C  
REG.CSO.20190701: REG.002.005.002  
REG.SSO.20190701: Remembering and Understanding:1

11. Parent gave securities with an adjusted basis of \$10,000 and fair market value of \$9,000 to a child. Later the child sold the securities for \$7,000. What is the child's basis for the securities sold?

A.\$10,000

B.\$9,000

C.\$7,000

D.\$0

Item ID: 58295  
Key: B  
REG.CSO.20190701: REG.003.001.001  
REG.SSO.20190701: Application:2

12. In the current year, Vinton exchanged unimproved land for an apartment building. The land had a basis of \$300,000, and a fair market value (FMV), of \$420,000, and was encumbered by a \$100,000 mortgage. The apartment building had an FMV of \$550,000 and was encumbered by a \$230,000 mortgage. Each party assumed the other's mortgage. What is Vinton's basis in the office building?

A.\$300,000

B.\$320,000

C.\$430,000

D.\$550,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 58657           |
| Key:              | C               |
| REG.CSO.20190701: | REG.003.001.001 |
| REG.SSO.20190701: | Application:2   |

13. Lemon owned 2,000 shares of Spectrol Corp. common stock that were purchased in year 1 at \$10.50 per share. In year 4, Lemon received a 5% non-taxable dividend of Spectrol common stock. In year 5, the stock split 2-for-1. In the current year Lemon sold 800 shares. What is Lemon's basis in the 800 shares of stock sold?

A.\$4,000

B.\$8,000

C.\$8,400

D.\$16,800

Item ID: 57433  
Key: A  
REG.CSO.20190701: REG.003.001.001  
REG.SSO.20190701: Application:2

14. Decker, a 62-year-old single individual, sold his principal residence for the net amount of \$500,000 after all selling expenses. Decker bought the house 15 years ago and occupied it until it was sold. On the date of sale, the house had a cost basis of \$200,000. Within six months, Decker purchased a new house for \$600,000. What amount of gain should Decker recognize from the sale of the residence?

- A.\$0
- B.\$50,000
- C.\$175,000
- D.\$300,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 57753           |
| Key:              | B               |
| REG.CSO.20190701: | REG.003.001.002 |
| REG.SSO.20190701: | Application:2   |

15. Vale is a 50% partner in Ball Partnership. Vale's tax basis in Ball on January 2, year 1, was \$60,000. Ball did not have unrealized receivables, appreciated inventory, or properties that had been contributed by its partners. On December 31, year 1, Ball made a \$10,000 *nonliquidating* cash distribution to each partner. The Ball Partnership income tax return reported the following items for year 1:

|                            |          |
|----------------------------|----------|
| Tax-exempt interest income | \$80,000 |
| Dividend income            | 12,000   |

What total amount of gross income from Ball should be included in Vale's year 1 adjusted gross income?

- A.\$6,000
- B.\$16,000
- C.\$36,000
- D.\$46,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 56733           |
| Key:              | A               |
| REG.CSO.20190701: | REG.004.002.000 |
| REG.SSO.20190701: | Application:2   |

16. Aston and Becker are equal partners in AB Partnership. In the tax year, the ordinary income of the partnership is \$20,000, and the partnership has a long-term capital gain of \$12,000. Aston's basis in AB was \$40,000, and he received distributions of \$5,000 during the year. What is Aston's share of AB's ordinary income?

A.\$10,000

B.\$15,000

C.\$16,000

D.\$18,500

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 58749           |
| Key:              | A               |
| REG.CSO.20190701: | REG.004.002.000 |
| REG.SSO.20190701: | Application:2   |



17. Decker, an individual, owns 100% of Acre, an S corporation. At the beginning of the year, Decker's basis in Acre was \$25,000. Acre had ordinary income during the year in the amount of \$10,000 and a long-term capital loss in the amount of \$4,000. Decker has no other capital gains or losses during the year. What amount of the long-term capital loss may Decker deduct this year?

- A.\$0
- B.\$1,000
- C.\$3,000
- D.\$4,000

Item ID: 57985  
Key: C  
REG.CSO.20190701: REG.004.002.000  
REG.SSO.20190701: Application:2

18. West is single, has no dependents, and does not itemize. West provides the following information regarding his current-year's return:

|   |          |
|---|----------|
| Long-term capital gain                                      | \$15,000 |
| Percentage depletion in excess of property's adjusted basis | 9,000    |
| Dividends from publicly-held companies                      | 10,000   |

What is the amount of West's AMT tax preference items?

- A.\$9,000
- B.\$19,000
- C.\$24,000
- D.\$34,000

Item ID: 59045  
Key: A  
REG.CSO.20190701: REG.004.008.000  
REG.SSO.20190701: Application:2

19. Prime Corp. is an accrual-basis, calendar-year C corporation. Its current-year reported book income before federal income taxes was \$300,000, which included \$17,000 corporate bond interest income. A \$20,000 expense for term life insurance premiums on corporate officers was incurred. Prime was the policy owner and beneficiary. What was Prime's current-year taxable income as reconciled on Prime's Schedule M-1, *Reconciliation of Income (Loss) per Books With Income per Return*, of Form 1120, *U.S. Corporation Income Tax Return*?

- A.\$320,000
- B.\$300,000
- C.\$283,000
- D.\$280,000

Item ID: 56627  
Key: A  
REG.CSO.20190701: REG.005.002.000  
REG.SSO.20190701: Application:2

20. Vital Corp. is an accrual-basis, calendar-year C corporation. Its year 2 reported book income before federal income taxes was \$500,000. Included in that amount were the following items:

|                                   |          |
|-----------------------------------|----------|
| Year 1 state franchise tax refund | \$50,000 |
| Municipal bond interest income    | 7,500    |

What should be the amount of Vital's year 2 taxable income as reconciled on Vital's Schedule M-1 of Form 1120, *U.S. Corporation Income Tax Return*?

- A.\$500,000
- B.\$492,500
- C.\$450,000
- D.\$442,500

Item ID: 56603  
Key: B  
REG.CSO.20190701: REG.005.002.000  
REG.SSO.20190701: Application:2

21. Press Corp. and Swank Corp. file a consolidated return. The companies had the following items of income and deductions for the current year:

|                        | <u>Press Corp.</u> | <u>Swank Corp.</u> |
|------------------------|--------------------|--------------------|
| Income from operations | \$80,000           | \$40,000           |
| Section 1231 loss      | (12,000)           | 0                  |
| Capital gain(loss)     | 4,000              | (3,000)            |

What is Press and Swank's consolidated taxable income?

- A.\$109,000
- B.\$112,000
- C.\$121,000
- D.\$124,000

Item ID: 73169  
Key: A  
REG.CSO.20190701: REG.005.003.004  
REG.SSO.20190701: Application:2

22. Rigg, Steele, and Urco Corps., all accrual-basis, calendar-year C corporations, have only voting common stock outstanding. Rigg owns 85 percent of Steele and 40 percent of Urco. Steele owns 50 percent of Urco. Which group of corporations qualifies as an affiliated group and may join in the filing of a consolidated federal income tax return?

A.Rigg and Urco.

B.Urco and Steele.

C.Rigg, Steele, and Urco.

D.An affiliated group does **not** exist.

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 57119           |
| Key:              | C               |
| REG.CSO.20190701: | REG.005.003.004 |
| REG.SSO.20190701: | Application:2   |

23. Sunshine Corp., a wholly owned subsidiary of Pierpoint Corp., purchased land from Pierpoint for its fair market value of \$10,000 on January 1 of the previous tax year. Pierpoint's adjusted basis of the land on the date of sale was \$8,000. During the current tax year, Sunshine sold the land for \$9,000 to an unrelated taxpayer. What gain or loss will be reported on a consolidated tax return filed by Sunshine and Pierpoint for the current tax year?

A.(\$1,000)

B.\$0

C.\$1,000

D.\$2,000

|                   |                 |
|-------------------|-----------------|
| Item ID:          | 58443           |
| Key:              | C               |
| REG.CSO.20190701: | REG.005.003.004 |
| REG.SSO.20190701: | Application:2   |

24. On January 1, the partners' interest in capital, profits, and losses of Studio Partnership were:

| <u>Partners</u> | <u>Percentages</u> |
|-----------------|--------------------|
| Ross            | 15%                |
| Stone           | 35%                |
| Taylor          | 50%                |

On April 9, Stone sold his entire interest to Taylor. For tax purposes, which of the following statements is correct regarding Studio's status as a partnership?

- A. Studio terminated as of January 1.
- B. Studio terminated as of April 9.
- C. Studio terminated as of December 31.
- D. Studio did **not** terminate.

Item ID: 73155  
Key: D  
REG.CSO.20190701: REG.005.005.007  
REG.SSO.20190701: Remembering and Understanding:1



25. Lake Trust, a simple trust, reported the following items of income and expense during the year:

|                                       |         |
|---------------------------------------|---------|
| Dividend income                       | \$2,500 |
| Taxable interest income               | 2,000   |
| Capital gains (allocable to corpus)   | 5,000   |
| Accounting fees (allocable to income) | (500)   |
| Trustee fees (allocable to income)    | (750)   |

What is Lake's distributable net income?

- A.\$9,500
- B.\$8,250
- C.\$5,000
- D.\$3,250

Item ID: 57005  
Key: D  
REG.CSO.20190701: REG.005.007.003  
REG.SSO.20190701: Application:2