

Question 1 of 25

Which of the following describes the appropriate reporting treatment for a change in accounting estimate?

- A. In the period of change with **no** future consideration.
 - B. By reporting *pro forma* amounts for prior periods.
 - C. By restating amounts reported in financial statements of prior periods.
 - D. In the period of change and future periods if the change affects both.
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Question 2 of 25

Bain Co. entered into a 10-year lease agreement for a new piece of equipment worth \$500,000. At the end of the lease, Bain will have the option to purchase the equipment. Which of the following would require the lease to be accounted for as a finance lease?

- A. The lease includes an option to purchase stock in the company.
 - B. The estimated useful life of the leased asset is 12 years.
 - C. The present value of the minimum lease payments is \$400,000.
 - D. The purchase option at the end of the lease calls for paying significantly higher than fair market value.
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Question 3 of 25

On January 2, Year 3, Well Co. purchased 10% of Rea, Inc.'s outstanding common shares for \$400,000. Well is the largest single shareholder in Rea, and Well's officers are a majority on Rea's board of directors. Rea reported net income of \$500,000 for Year 3, and paid dividends of \$150,000. Well does not elect the fair value option to report its investment in Rea. In its December 31, Year 3, balance sheet, what amount should Well report as investment in Rea?

- A. \$385,000
 - B. \$400,000
 - C. \$435,000
 - D. \$450,000
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Leaf Co. purchased from Oak Co. a \$20,000, 8%, 5-year note that required five equal annual year-end payments of \$5,009. The note was discounted to yield a 9% rate to Leaf. At the date of purchase, Leaf recorded the note at its present value of \$19,485. What should be the total interest revenue earned by Leaf over the life of this note?

- A. \$5,045
 - B. \$5,560
 - C. \$8,000
 - D. \$9,000
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Question 5 of 25

Brock Corp. reports operating expenses in two categories: (1) selling, and (2) general and administrative. The adjusted trial balance at December 31, year 1, included the following expense and loss accounts:

Accounting and legal fees	\$120,000
Advertising	150,000
Freight-out	80,000
Interest	70,000
Loss on sale of long-term investment	30,000
Officers' salaries	225,000
Rent for office space	220,000
Sales salaries and commissions	140,000

One-half of the rented premises is occupied by the sales department.

Brock's total selling expenses for year 1 are

- A. \$480,000
 - B. \$400,000
 - C. \$370,000
 - D. \$360,000
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Hilltop Co.'s monthly bank statement shows a balance of \$54,200. Reconciliation of the statement with company books reveals the following information:

Bank service charge	\$ 10
Insufficient funds check	650
Checks outstanding	1,500
Deposits in transit	350
Check deposited by Hilltop and cleared by the bank for \$125 but improperly recorded by Hilltop as \$152.	

What is the net cash balance after the reconciliation?

- A. \$52,363
 - B. \$53,023
 - C. \$53,050
 - D. \$53,077
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Question 7 of 25

Based on the stock transactions below, what is the weighted average number of shares outstanding as of December 31, Year 1, that should be used in the calculation of basic earnings per share in financial statements issued on March 1, Year 2?

<u>Date</u>	<u>Transactions</u>
January 1, Year 1	Beginning balance 100,000
April 1, Year 1	Issued 30,000 shares for cash
June 1, Year 1	50% stock dividend
February 15, Year 2	2-for-1 stock split
March 15, Year 2	Issued 40,000 shares for cash

- A. 147,500
 - B. 183,750
 - C. 295,000
 - D. 367,500
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Question 8 of 25

Carver Co., a retailer, uses the perpetual inventory method. Carver uses the moving average method to determine the value of its inventory. The following information relates to inventory transactions that took place during the month of March:

3/1	Beginning inventory	30,000 units at \$10
3/5	Purchase	10,000 units at \$12
3/10	Sales at \$20 per unit	20,000 units
3/20	Purchase	20,000 units at \$13

What amount should Carver report as cost of goods sold on its income statement at the end of March?

- A. \$200,000
 - B. \$210,000
 - C. \$240,000
 - D. \$260,000
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Question 9 of 25

A material overstatement in ending inventory was discovered after the year end financial statements of a company were issued to the public. What effect did this error have on the year end financial statements?

	<u>Current assets</u>	<u>Gross profit</u>
A.	Overstated	Overstated
B.	Understated	Overstated
C.	Understated	Understated
D.	Overstated	Understated
