

Question 1:

'You bought a limousine for \$98,000 and are planning to rent it for weddings, ceremonies and parties at \$245 per hour. If you estimate the car will be hired for 2 hours a day on average, with daily costs at about \$50, what is the estimated yearly yield on your investment if you work all year round, i.e. every day of the year, including any festivities and weekends?', A. '164%', B. '1.64%', C. '0.45%', D. '183%'

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Answer Option 1:

First, calculate how much you earn daily: \$245 per hour * 2 hours = \$490 a day.

Then subtract the daily costs: \$490 - \$50 = \$440 a day.

Now, calculate the yearly earnings: \$440 * 365 days = \$160,600.

Finally, calculate the yield as a percentage of the initial investment: (\$160,600 / \$98,000) * 100% = approximately 163.87%, which rounds to 164%.

Therefore, the estimated yearly yield on your investment is approximately 164%. Final answer: A.

Answer Option 2:

Firstly, we calculate the daily earnings: \$245 (per hour) x 2 (hours per day) = \$490 per day.

Subtracting the daily costs, we get: \$490 - \$50 = \$440 net profit per day.

Then, we calculate the yearly earnings: \$440 (per day) x 365 (days) = \$160,600 per year.

The yearly yield on the investment is then: (\$160,600 / \$98,000) x 100 = approximately 163.88%, which is closest to 164%. Final Answer: A

Answer Option 3:

The limousine will make \$245 * 2 = \$490 per day. Over the course of the year, this will amount to \$490 * 365 = \$178,850.

Subtracting daily costs, the net income per day is \$490 - \$50 = \$440. Over the course of the year, this amounts to \$440 * 365 = \$160,600.

The yield on your investment can then be calculated as \$160,600 / \$98,000 = 1.64, or 164%.

So, the final answer is A: '164%'.

Answer Option 4:

Let's calculate how much you will earn in a year: \$245 per hour * 2 hours a day * 365 days = \$178,850.

Now let's calculate the total costs for the year: \$50 per day * 365 days = \$18,250.

So, the net annual gain is: \$178,850 - \$18,250 = \$160,600.

Considering the cost of the limousine, the estimated yearly yield on the investment is: (\$160,600 / \$98,000) * 100 = about 163.88%, which is approximately 164%.

Final Answer: A

Answer Option 5:

First, determine the daily earnings by multiplying the rental cost per hour by the average hours per day the limousine will be rented: \$245 * 2 = \$490 per day.

Next, subtract the daily cost from the daily earnings to find the net earnings per day: \$490 - \$50 = \$440 per day.

To find the yearly yield, multiply the net earnings per day by 365 (days in a year): \$440 * 365 = \$160,600 per year.

Lastly, divide the yearly yield by the cost of the limousine and multiply by 100 to get the percentage yield on your investment: (\$160,600 / \$98,000) * 100 = approximately 163.88% which is closest to 164%.

So, the estimated yearly yield on your investment is approximately 164%. Final Answer: A

Answer Option 6:

The income from renting the limousine is \$245 per hour * 2 hours a day * 365 days = \$178,850 per year.

The yearly costs amount to \$50 * 365 days = \$18,250.

So, the net yield per year is \$178,850 - \$18,250 = \$160,600.

To get the yield on the investment, divide the net yield by the investment and multiply by 100, so the yield is \$160,600 / \$98,000 * 100 = 163.88%.

Rounding, we get a yield of approximately 164%. So, the answer is A. '164%'.

Answer Option 7:

The estimated daily income is 2 hours * \$245/hour = \$490.

The estimated annual income is \$490/day * 365 days/year = \$178,850/year.

The daily cost is \$50/day, and the annual cost is \$50/day * 365 days/year = \$18,250/year.

So, the net annual income is \$178,850/year - \$18,250/year = \$160,600/year.

The yield on the investment is (\$160,600/year / \$98,000) * 100% = 163.87% = 164%.

Thus, the estimated yearly yield on your investment is approximately 164%. Final answer: A.

Answer Option 8:

First, calculate the yearly income by multiplying the hourly rate by the number of hours per day, then by the number of days in a year: $\$245 \times 2 \times 365 = \$178,850$.

Next, calculate the yearly costs by multiplying the daily costs by the number of days in a year: $\$50 \times 365 = \$18,250$.

Then, subtract the yearly costs from the yearly income to get the net yearly income: $\$178,850 - \$18,250 = \$160,600$.

Finally, divide the net yearly income by the initial investment and multiply by 100 to get the estimated yearly yield as a percentage: $(\$160,600/\$98,000) \times 100 = 163.8\%$, which rounds to 164%.

Therefore, the estimated yearly yield on your investment is 164%. Final Answer: A.

Answer Option 9:

First, calculate the daily revenue by multiplying the hours per day the limousine is rented by the hourly rental rate: $2 \text{ hours/day} \times \$245/\text{hour} = \$490/\text{day}$.

Then, subtract the daily costs: $\$490/\text{day} - \$50/\text{day} = \$440/\text{day}$.

To find the annual yield, multiply the daily yield by the number of days in a year: $\$440/\text{day} \times 365 \text{ days/year} = \$160,600/\text{year}$.

Finally, express the annual yield as a percentage of the initial investment: $(\$160,600/\text{year} / \$98,000) \times 100\% = 163.88\%$, which is approximately 164%.

Final answer: A. '164%'

Question 2:

'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? Assets Liabilities', A. 'No effect No effect', B. 'No effect Understated', C. 'Understated No effect', D. 'Understated Understated'

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Answer Option 1:

The merchandise was correctly included in the inventory, meaning the asset account was correct. However, since the credit purchase was not recorded, the liability (payable to the supplier) was not recorded and thus understated. Therefore, the correct answer is 'No effect Understated'. Final Answer: B.

Answer Option 2:

Since the merchandise was included in the year-end inventory, the assets were correctly stated. However, the liability for the purchase was not recorded, so liabilities were understated. Hence, the answer is B. 'No effect Understated'. Final Answer: B

Answer Option 3:

Since the merchandise was correctly included in the inventory, the assets on the balance sheet are correct. However, since the purchase was on credit and it was not recorded, the liabilities are understated because the payable for the purchase was not recorded. Therefore, the final answer is: B. 'No effect Understated'

Answer Option 4:

Arno Co. purchased the merchandise but didn't record it. However, it included it in the physical inventory.

This would mean that the cost of the merchandise was not included in the accounts payable (liabilities), hence these would be understated.

On the other hand, the inventory (an asset) was correctly counted, hence, there was no effect on the assets.

Therefore, the correct answer is B. 'No effect Understated'.

Answer Option 5:

Since the inventory was correctly included in the year-end physical count, the asset "inventory" is correct. However, because the purchase was not recorded, there is no corresponding liability. Therefore, assets have no effect but liabilities are understated. Final Answer: B

Answer Option 6:

B. 'No effect Understated'

Explanation: Since the merchandise is correctly included in the inventory, the assets are correctly stated. However, since the purchase was not recorded, the payable (liability) has not been recorded, thus the liabilities are understated.

Answer Option 7:

Since the merchandise was included in the year-end physical inventory, the assets (Inventory) are correctly stated. However, since the credit purchase was not recorded, the liabilities (Accounts Payable) are understated as the company owes money for the merchandise purchased on credit. So, the effect on Arno's balance sheet at the year-end is: Assets - No effect, Liabilities - Understated. Final answer: B.

Answer Option 8:

The merchandise was correctly included in the inventory, so the assets are correctly stated. However, the purchase was not recorded, which means the payable (liability) associated with the purchase was not recorded. Therefore, the liabilities are understated. So, the final answer is: B. 'No effect Understated'.

Answer Option 9:

The merchandise was included in the year-end physical inventory, so this means that the assets (inventory) are correctly stated. However, since the credit purchase wasn't recorded, the liabilities (accounts payable) are understated because the company owes money for the merchandise they purchased on credit. So, the answer is B. 'No effect Understated'. Final Answer: B.

Question 3:

'Which of the following statements about audit sampling risks is correct for a nonissuer?'. A. 'Nonsampling risk arises from the possibility that, when a substantive test is restricted to a sample, conclusions might be different than if the auditor had tested each item in the population.'. B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'. C. 'Sampling risk is derived from the uncertainty in applying audit procedures to specific risks.'. D. 'Sampling risk includes the possibility of selecting audit procedures that are not appropriate to achieve the specific objective.'

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Answer Option 1:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 2:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 3:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 4:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 5:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 6:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 7:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 8:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Answer Option 9:

B. 'Nonsampling risk can arise because an auditor failed to recognize misstatements.'

Question 4:

'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.'

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Answer Option 1:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 2:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 3:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 4:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 5:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 6:

The correct procedure for an auditor regarding subsequent events would be D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 7:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 8:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Answer Option 9:

D. 'Compare the latest available interim financial statements with the statements being audited.'

Question 5:

The FASB makes changes to the Accounting Standards Codification by issuing', A. 'Accounting Standards Updates.', B. 'Emerging Issues Task Force Releases.', C. 'Statements of Financial Accounting Standards.', D. 'Staff Technical Bulletins.'

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Answer Option 1:

A. 'Accounting Standards Updates.'

Answer Option 2:

A. 'Accounting Standards Updates.'

Answer Option 3:

A. 'Accounting Standards Updates.'

Answer Option 4:

A. 'Accounting Standards Updates.'

Answer Option 5:

A. 'Accounting Standards Updates.'

Answer Option 6:

A. 'Accounting Standards Updates.'

Answer Option 7:

A. 'Accounting Standards Updates.'

Answer Option 8:

A. 'Accounting Standards Updates.'

Answer Option 9:

A. 'Accounting Standards Updates.'

Question 6:

'An investment project costing \$500 today will generate profits of \$500 in year five and year ten. If the discount rate is 10%, what is the project's NPV?', A. '-\$3', B. '-\$27', C. '\$3', D. '\$500'

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Answer Option 1:

The net present value (NPV) of an investment project is the sum of the present value of the profits minus the initial cost of the project. The present value of a future sum of money is calculated by discounting it back to the present using the formula $PV = FV / (1+r)^n$ where PV is the present value, FV is the future value, r is the discount rate, and n is the number of years until the cash flow occurs.

The present value of the \$500 profit in year five is $\$500 / (1+0.10)^5 = \310.46 .

The present value of the \$500 profit in year ten is $\$500 / (1+0.10)^{10} = \192.77 .

The NPV of the project is the sum of these two values minus the initial cost of \$500, so $NPV = \$310.46 + \$192.77 - \$500 = \3.23 .

Thus, the answer is C. '\$3'.

Answer Option 2:

The Net Present Value (NPV) is calculated by summing the present values of incoming and outgoing cash flows over a period of time. The present value (PV) of a future amount of money is given by the formula $PV = FV/(1+r)^n$, where FV is the future value, r is the interest rate, and n is the number of periods.

The cash flows in this project are -\$500 today (this is the cost), +\$500 in year five, and +\$500 in year ten. We calculate the present value of the future cash inflows and subtract the initial investment to find the NPV.

For the \$500 in year five, the present value is $500/(1+0.1)^5 = \$310.46$.

For the \$500 in year ten, the present value is $500/(1+0.1)^{10} = \$192.77$.

Subtracting the initial investment of \$500, the NPV is $\$310.46 + \$192.77 - \$500 = \3.23 .

Since the options are presented as integer values, the closest answer choice is $\boxed{3}$ \$, option C.

Answer Option 3:

The NPV (Net Present Value) of an investment is the sum of the present values of incoming and outgoing cash flows over a period of time.

The present value (PV) of an amount of money received in the future can be calculated using the formula: $PV = FV / (1 + r)^n$, where FV is the future value of the money, r is the discount rate, and n is the number of years in the future the money is received.

So, the present value of \$500 received in year five is: $PV = \$500 / (1 + 0.10)^5 = \$500 / 1.61 = \$310.56$

The present value of \$500 received in year ten is: $PV = \$500 / (1 + 0.10)^{10} = \$500 / 2.59 = \$193.44$

The total present value of the profits from the investment is: $\$310.56 + \$193.44 = \$504$

Therefore, the NPV of the investment is: $NPV = \text{Total present value of profits} - \text{Cost of investment} = \$504 - \$500 = \4 .

But since only options with integral values are provided, the closest answer is C. '\$3' Final answer: C.

Answer Option 4:

The Net Present Value (NPV) of an investment project is calculated by discounting the cash flows of the project using the discount rate and then subtracting the initial investment.

The cash inflow from the project in the 5th year is \$500. Discounted at 10% for 5 years, the present value of this cash inflow is $\$500 / (1 + 10\%)^5 = \$500 / 1.61 = \$310.46$ (rounded to the nearest cent).

Similarly, the cash inflow from the project in the 10th year is also \$500. Discounted at 10% for 10 years, the present value of this cash inflow is $\$500 / (1 + 10\%)^{10} = \$500 / 2.59 = \$193.35$ (rounded to the nearest cent).

Adding these two present values, we get $\$310.46 + \$193.35 = \$503.81$.

Since the initial cost of the project is \$500, the project's NPV is $\$503.81 - \$500 = \$3.81$.

Since we round to the nearest integer in this problem, the answer would be $\boxed{3}$ \$.

Final Answer: C

Answer Option 5:

The Net Present Value (NPV) of a series of future cash flows is the sum of the present values (PV) of each cash flow. The PV of a cash flow is calculated as $PV = \text{Cash Flow} / (1+r)^n$, where r is the discount rate and n is the number of periods until the cash flow is received.

The NPV of the project is the sum of the present values of the cost and profits:

$NPV = PV(\text{Cost}) + PV(\text{Profit in Year 5}) + PV(\text{Profit in Year 10})$

$= -500 + 500/(1+0.1)^5 + 500/(1+0.1)^{10}$

$= -500 + 500/1.61 + 500/2.59$

$= -500 + 310.56 + 193.31$

$= \$3.87$

Rounding to the nearest whole number, the project's NPV is approximately \$4.

However, none of the given options match this answer. There might be a typo in the question or the answer choices. If we consider the closest option, it would be A. '-\$3'.

Answer Option 6:

The NPV (Net Present Value) of an investment project is calculated by discounting all cash flows (both costs and profits) back to the present using the discount rate.

The costs are \$500 today, so this is not discounted. The profits are \$500 in year five and year ten. Discounting these back to present using the discount rate of 10% gives us:

$$\$500/(1+0.10)^5 + 500/(1+0.10)^{10}$$

This is approximately equal to:

$$\$310.46 + 192.77 = \$503.23$$

Therefore, the NPV of the project is:

$$\$503.23 - 500 = \$3.23$$

So, the closest answer is C. '\$3'. Final Answer: C

Answer Option 7:

The Net Present Value (NPV) is calculated by summing the present values of incoming and outgoing cash flows over a period of time. The formula is:

$$NPV = \sum [\text{Cash inflow} / (1 + r)^n] - \text{Initial investment}$$

where:

r = discount rate

n = time period

So in this case, the NPV will be:

$$NPV = [\$500 / (1 + 0.1)^5 + \$500 / (1 + 0.1)^{10}] - \$500$$

This simplifies to:

$$NPV = [\$500 / 1.61 + \$500 / 2.59] - \$500$$

$$NPV = [\$310.56 + \$193.44] - \$500$$

$$NPV = \$504 - \$500$$

So the project's NPV is \$4. Final answer: None of the options are correct.

Answer Option 8:

The Net Present Value (NPV) of the project would be calculated using the formula for NPV which is:

$$NPV = \sum [R_t / (1+i)^t] - C_0$$

where:

R_t = net cash inflow during the period t

i = discount rate (10% in this case)

t = number of time periods (5 and 10 in this case)

C₀ = initial investment (\$500 in this case)

$$\text{So, } NPV = \$500/(1+10\%)^5 + \$500/(1+10\%)^{10} - \$500$$

This would result in an NPV of approximately -27, so the correct answer would be B. '-\$27'.

Answer Option 9:

Net present value (NPV) is the sum of the present values of incoming and outgoing cash flows over a period of time. The discounted cash flow (DCF) model is used to calculate the present value of future cash flows. Given a cash flow amount CF received at a future date t and a discount rate r, its present value PV is determined by the formula: $PV = CF / (1+r)^t$.

For this project, the initial cost is \$500, which makes the outgoing cash flow today. The project also generates profits of \$500 in year five and year ten, which are incoming cash flows. Given the discount rate is 10%, or 0.1 in decimal form, we can calculate the present values of these profits:

The present value of the \$500 profit in year five:

$$PV_5 = 500 / (1+0.1)^5 = 500 / 1.61 = 310.56$$

The present value of the \$500 profit in year ten:

$$PV_{10} = 500 / (1+0.1)^{10} = 500 / 2.59 = 193.71$$

So the NPV of this project is:

$$NPV = -500 + 310.56 + 193.71 = \$4.27$$

However, none of the given options match this value. We can then assume that the problem wants us to consider rounding the intermediate calculations to the nearest dollar. So, we have:

$$\text{Rounded } PV_5 = 311$$

$$\text{Rounded } PV_{10} = 194$$

Then, the rounded NPV is:

$$NPV = -500 + 311 + 194 = \$5$$

Again, none of the given options match this value, suggesting an error in the problem statement or the answer options. Based on the correct calculations, none of the given options A, B, C or D is correct.

Question 7:

'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? Bond carrying Retained amount earnings', A. 'Overstated Understated', B. 'Understated Overstated', C. 'Overstated No effect', D. 'No effect No effect'

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Answer Option 1:

The straight-line method results in a higher bond carrying amount (because the premium is amortized more slowly) and therefore lower interest expense (and thus higher net income) than the effective interest method. Therefore, the bond carrying amount is overstated and retained earnings are overstated. The final answer is: B. 'Understated Overstated'.

Answer Option 2:

The straight-line method results in a smaller amount of premium amortization each period as compared to the effective interest method. Therefore, the bond carrying amount at June 30 year 12 is overstated because less premium has been amortized. Since less premium has been amortized, there is less interest expense. This results in higher net income and therefore, retained earnings are overstated. Final

Answer: A. 'Overstated Understated'

Answer Option 3:

The straight-line method of amortization results in a lower expense being recognized each year as compared to the effective interest method. Therefore, the bond carrying amount, which decreases over time, would be understated by the end of the period (since less expense has been recognized each year). As a result, the retained earnings would be overstated, because the bond expense, which reduces earnings, is too low. So, the correct answer is B. 'Understated Overstated'.

Answer Option 4:

The straight-line method results in equal premium amortization every year, while the effective interest method results in a decreasing premium amortization each year. Thus, using the straight-line method would cause more premium to be amortized by June 30 year 12 than with the effective interest method. This means the bond carrying amount would be understated.

The over-amortization of the premium would decrease the interest expense each year, resulting in higher net income and consequently higher retained earnings. Thus, retained earnings would be overstated.

Final answer: B. 'Understated Overstated'

Answer Option 5:

A. 'Overstated Understated'

The straight-line method results in the same amount of premium amortization each period, whereas the effective interest method results in a decreasing premium amortization each period. Thus, the bond carrying amount at June 30 year 12 would be overstated because it would have been reduced more quickly under the effective interest method.

Furthermore, the smaller premium amortization under the effective interest method results in higher interest expense each period. This reduces net income and, consequently, retained earnings. Thus, the retained earnings would be understated at June 30 year 12.

Answer Option 6:

Using the straight-line method instead of the effective interest method overstates the bond carrying amount because the straight-line method results in slower amortization of the premium. This means less of the premium has been amortized (or reduced), which leads to a higher carrying amount.

As for the retained earnings, the slower amortization means that less interest expense is recognized each period. Lower interest expense increases net income, which in turn increases retained earnings.

Therefore, retained earnings are overstated.

As a result, both bond carrying amount and retained earnings are overstated. Final Answer: C. 'Overstated No effect'

Answer Option 7:

The use of the straight-line method of premium amortization, as opposed to the effective interest method, will result in a higher carrying amount for the bond. This is because the straight-line method spreads the premium evenly over the life of the bond, whereas the effective interest method results in a smaller amortization amount in the earlier years and a larger amount in the later years.

The retained earnings will not be impacted by this error, because both methods result in the same total premium amortization over the life of the bond, and thus the same amount of interest expense. The timing of recognizing this expense is different between the two methods, but by the end of the bond's life (which is the case at June 30 year 12), the total recognized expense is the same.

Therefore, the bond carrying amount is overstated and there is no effect on retained earnings. So the final answer is C. 'Overstated No effect'.

Answer Option 8:

The straight-line method of amortization results in a constant charge against income in each period of the bond's life. On the other hand, the effective interest method results in a decreasing charge against income as the bond approaches maturity.

If Dean Co. used the straight-line method when they should have used the effective interest method, the premium, which reduces the cost of borrowing, would have been amortized too quickly in the early years and too slowly in the later years.

As of June 30, year 12 (the bonds' maturity date), the premium should have been fully amortized using either method. Because the straight-line method would have left too much of the premium unamortized at this date, the bond carrying amount is overstated.

The retained earnings are affected by the net income, which is reduced by the bond premium amortization. Since the straight-line method results in a smaller charge against income in the later years when compared to the effective interest method, the retained earnings are understated.

So, the final answer is: A. 'Overstated Understated'

Answer Option 9:

Under the straight-line method, the premium is spread equally across the periods whereas under the effective interest method, the premium decreases in a non-linear way over time.

By the end of the bond's life (June 30, year 12), all of the premium should have been amortized regardless of the method used. So, the carrying amount of the bonds is not affected by the method used and remains the same.

However, the amount of premium amortized each year does impact the annual interest expense, and therefore the net income and retained earnings. Under the straight-line method, more premium would have been amortized in the earlier years and less in the later years compared to the effective interest method. This means the interest expense was understated in the early years and overstated in the later years.

Since the question asks about the impact at June 30 year 12, the interest expense in that year would have been overstated under the straight-line method. An overstated interest expense would lead to an understated net income and thus, understated retained earnings.

Therefore, the bond carrying amount is not affected, but the retained earnings are understated. Final answer: D.

Question 8:

'What is the price of a three-year bond (face value \$100), paying 5% coupons, with a yield of 6%?', A. '\$100', B. '\$104.29', C. '\$96.71', D. '\$97.33'

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Answer Option 1:

The price of the bond is the present value of all future cash flows.

The bond pays a 5% coupon each year for three years and the face value at the end of the third year. The present value of the coupon payments is $\$5/(1.06) + 5/(1.06)^2 + 5/(1.06)^3 = 4.72 + 4.45 + 4.20 = 13.37\$$

The present value of the face value is $\$100/(1.06)^3 = 83.96\$$

The total price of the bond is $\$13.37 + 83.96 = \boxed{\$97.33}\$$. Final answer: D.

Answer Option 2:

The price of a bond is the present value of its future cash flows. The cash flows are the coupon payments and the face value at maturity.

The coupon payments are \$5 (5% of \$100) per year for three years, and the face value is \$100 at the end of three years.

The present value of the coupon payments is $\$5/(1.06) + \$5/(1.06)^2 + \$5/(1.06)^3 = \$4.72 + \$4.45 + \$4.20 = \$13.37$.

The present value of the face value is $\$100/(1.06)^3 = \83.96 .

So the price of the bond is $\$13.37 + \$83.96 = \$97.33$.

Final answer: D.

Answer Option 3:

The price of a bond is the present value of its future cash flows, which are the coupon payments and the face value, discounted at the yield rate.

The coupon payments are \$5 per year for three years, and the face value is \$100.

Using the formula for present value, we get:

Price = $\$5/(1+0.06) + \$5/(1+0.06)^2 + \$5/(1+0.06)^3 + \$100/(1+0.06)^3$

= $\$4.72 + \$4.45 + \$4.20 + \83.48

= $\$96.85$

So the closest answer is $\boxed{\$96.71}\$$. Final answer: C

Answer Option 4:

We first calculate the present value of the coupons:

$PV(\text{Coupons}) = 5/(1.06) + 5/(1.06)^2 + 5/(1.06)^3 = 4.72 + 4.45 + 4.20 = 13.37$

Next, we calculate the present value of the face value:

$PV(\text{Face Value}) = 100/(1.06)^3 = 83.96$

The price of the bond is the sum of the present values of the coupons and the face value:

Price = $PV(\text{Coupons}) + PV(\text{Face Value}) = 13.37 + 83.96 = 97.33$.

Final answer: D

Answer Option 5:

A three-year bond with 5% coupons will pay \$5 every year for three years and the face value of \$100 at the end of the third year. The present value of these payments, discounted at the 6% yield rate, is the price of the bond:

Price = $\$5/(1.06) + \$5/(1.06)^2 + \$5/(1.06)^3 + \$100/(1.06)^3 = \$4.72 + \$4.46 + \$4.21 + \$83.48 = \$96.87\$$

However, this answer is not available in the options. If we round it off to two decimal places, the closest provided option would be $\boxed{96.71}\$$. Final answer: C.

Please note that the actual calculation yields a value of $\$96.87\$$ which is not available in the provided options. So, the question might have a typo or there might be some rounding off made in the options.

Answer Option 6:

The price of a bond is the present value of all future cash flows. The future cash flows from this bond are \$5 at the end of the first year, \$5 at the end of the second year, and \$105 at the end of the third year.

The present value of these cash flows, using a discount rate of 6%, is given by:

$PV = \$5/(1.06)^1 + \$5/(1.06)^2 + \$105/(1.06)^3$

$PV = \$4.72 + \$4.46 + \$88.21$

$PV = \$97.39$

This is not an option so we can assume there was a rounding error and take the closest option which is $\boxed{\$97.33}\$$. Final answer: D.

Answer Option 7:

The price of a bond is the present value of the cash flows. The cash flows are \$5 at the end of the first year, \$5 at the end of the second year, and \$105 at the end of the third year (the final coupon payment plus the face value of the bond).

The present value of these cash flows are $\$5/(1.06)^1$, $\$5/(1.06)^2$, and $\$105/(1.06)^3$, respectively. Adding these gives the price of the bond:

$$\$5/(1.06)^1 + 5/(1.06)^2 + 105/(1.06)^3 = 4.72 + 4.45 + 88.54 = \$97.71\$$$

Hence, the price of the bond is closest to option C, \$96.71. The slight discrepancy may be due to rounding errors. Therefore, the final answer is C.

Answer Option 8:

The price of a bond is the present value of its future cash flows which include coupon payments and the face value at the end of its term.

The bond pays 5% coupons annually, therefore, the annual coupon payment is $\$100 \times 0.05 = \5 .

The bond's annual yield is 6%, therefore we use this as our discount rate to calculate the present value of the cash flows.

The present value (PV) of the coupon payments is:

$$PV = \$5/(1+0.06) + \$5/(1+0.06)^2 + \$5/(1+0.06)^3 = \$4.72 + \$4.45 + \$4.20 = \$13.37$$

The present value of the face value is:

$$PV = \$100/(1+0.06)^3 = \$83.96$$

Therefore, the price of the bond is the sum of these present values, which is $\$13.37 + \$83.96 = \$97.33$.

Final answer: D. '\$97.33'

Answer Option 9:

The price of a bond is the present value of its future cash flows. The bond pays \$5 per year for three years and returns the face value of \$100 at the end of the third year. The formula for the present value (PV) of a cash flow is:

$$PV = CF / (1 + r)^t$$

where CF is the cash flow, r is the yield and t is the time. We can use this formula to calculate the present value of each cash flow, then sum them to get the price of the bond.

$$PV \text{ Year 1} = \$5 / (1 + 0.06)^1 = \$4.72$$

$$PV \text{ Year 2} = \$5 / (1 + 0.06)^2 = \$4.45$$

$$PV \text{ Year 3} = \$5 / (1 + 0.06)^3 = \$4.20$$

$$PV \text{ Face Value} = \$100 / (1 + 0.06)^3 = \$83.48$$

Price = PV Year 1 + PV Year 2 + PV Year 3 + PV Face Value = $\$4.72 + \$4.45 + \$4.20 + \$83.48 = \$96.85$. The closest answer to this value is '\$96.71'. Final answer: C.

Question 9:

'A company recently moved to a new building. The old building is being actively marketed for sale, and the company expects to complete the sale in four months. Each of the following statements is correct regarding the old building, except:', A. 'It will be reclassified as an asset held for sale.', B. 'It will be classified as a current asset.', C. 'It will no longer be depreciated.', D. 'It will be valued at historical cost.'

=====

Answer Option 1:

D. 'It will be valued at historical cost.'

=====

Answer Option 2:

D. 'It will be valued at historical cost.'

=====

Answer Option 3:

D. 'It will be valued at historical cost.'

=====

Answer Option 4:

D. 'It will be valued at historical cost.'

=====

Answer Option 5:

D. 'It will be valued at historical cost.'

=====

Answer Option 6:

D. 'It will be valued at historical cost.'

=====

Answer Option 7:

D. 'It will be valued at historical cost.'

=====

Answer Option 8:

D. 'It will be valued at historical cost.'

=====

Answer Option 9:

D. 'It will be valued at historical cost.'

Once a non-current asset is classified as held for sale, it should be measured at the lower of its carrying amount and fair value less costs to sell, not its historical cost.

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Question 10:

Carson owned 40% of the outstanding stock of a C corporation. During a tax year, the corporation reported \$400,000 in taxable income and distributed a total of \$70,000 in cash dividends to its shareholders. Carson accurately reported \$28,000 in gross income on Carson's individual tax return. If the corporation had been an S corporation and the distributions to the owners had been proportionate, how much income would Carson have reported on Carson's individual return?, A. '\$28,000', B. '\$132,000', C. '\$160,000', D. '\$188,000'

=====

Answer Option 1:

Carson would have reported 40% of the entire \$400,000 of income that the corporation made, because S corporation income is passed through to its shareholders. 40% of \$400,000 is \$160,000. Carson would have reported \$160,000 in income on Carson's individual return. Final Answer: C. '\$160,000'

Answer Option 2:

If the corporation had been an S corporation, Carson's share of the corporation's income would be proportionate to his ownership, or 40% of \$400,000, which is \$160,000. This is regardless of the actual cash distributions. So, Carson would have reported \$160,000 on his individual return. Final answer: C

Answer Option 3:

If the corporation had been an S corporation, Carson would have reported his share of the corporation's total income, not just the dividends. Since he owns 40% of the stock, his share of the \$400,000 income would be $0.40 \times \$400,000 = \$160,000$. So, Carson would have reported \$160,000 in income. Final answer: C. '\$160,000'

Answer Option 4:

As a shareholder owning 40% of the stock in an S corporation, Carson would report 40% of the corporation's taxable income on his individual return. Therefore, he would report $0.4 \times \$400,000 = \$160,000$. Thus, Carson would have reported \$160,000 on his individual return if the corporation had been an S corporation. Final answer: C

Answer Option 5:

As a shareholder of an S corporation, Carson would report a proportionate share of the corporation's income on his individual return. Since he owned 40% of the corporation, he would report 40% of \$400,000, which is \$160,000. Therefore, if the corporation had been an S corporation, Carson would have reported \$160,000 on his individual return. Final Answer: C. '\$160,000'

Answer Option 6:

As a shareholder in an S corporation, Carson would report a proportionate share of the corporation's income on Carson's individual tax return. Given that Carson owns 40% of the corporation, his share of the corporation's \$400,000 taxable income would be $\$400,000 \times 0.40 = \$160,000$. Therefore, if the corporation had been an S corporation and the distributions to the owners had been proportionate, Carson would have reported \$160,000 in income on Carson's individual tax return. Final answer: C

Answer Option 7:

As an owner of 40% of the stock, Carson would report 40% of the corporation's taxable income on his individual return, assuming the distributions to owners were proportionate. The taxable income of the corporation was \$400,000, so Carson's portion would be $0.4 \times \$400,000 = \$160,000$. Therefore, Carson would have reported \$160,000 on his individual return. Final answer: C. '\$160,000'

Answer Option 8:

If the corporation had been an S corporation, Carson would have reported a percentage of the corporation's income equivalent to his percentage ownership in the corporation. Therefore, Carson's income would have been 40% of the corporation's \$400,000 in taxable income, or \$160,000. Carson would also have received 40% of the \$70,000 in cash dividends, or \$28,000. However, in an S corporation, dividends are generally not taxed separately as they would be in a C corporation. Therefore, Carson's total reported income would be \$160,000. Answer: C. '\$160,000'

Answer Option 9:

As an S corporation, all of the company's income would pass through to its shareholders. So, Carson would report 40% of the company's \$400,000 income, which is \$160,000. Then, Carson would also receive 40% of the \$70,000 dividends, which is \$28,000. Adding these together, Carson would have reported $\$160,000 + \$28,000 = \$188,000$ on Carson's individual return if the corporation had been an S corporation. Final Answer: D. '\$188,000'

Question 11:

'An investment will pay out \$10 p.a. forever. What is that investment worth if the market discount rate is 5%?', A. '\$100', B. '\$2', C. '\$500', D. '\$200'

=====

Answer Option 1:

The value of a perpetuity is calculated as the annual payout divided by the discount rate. Therefore, the investment is worth $\$10 / 0.05 = \200 . Final answer: D.

Answer Option 2:

The value of a perpetuity (an investment that pays out forever) can be calculated using the formula:

Value = Payment / Discount rate

Substituting the given values into the formula gives:

Value = $\$10 / 0.05 = \200

So the investment is worth \$200. Final answer: D.

Answer Option 3:

The present value of a perpetuity (an investment that pays out forever) is calculated by dividing the annual payout by the discount rate. In this case, the present value is $\$10 / 0.05 = \200 . So, if the market discount rate is 5%, the investment is worth \$200. Final answer: D.

Answer Option 4:

The value of a perpetuity investment is calculated using the formula $I = P/R$ where I is the investment value, P is the periodic payment and R is the rate of return. For this investment, $P = \$10$ and $R = 5\% = 0.05$.

So, the value of the investment is $I = 10/0.05 = \$200$.

Final Answer: D. '\$200'

Answer Option 5:

The value of an investment that will pay out a constant amount forever, also known as a perpetuity, can be calculated using the formula $PV = C / r$ where PV is the present value or worth of the investment, C is the constant annual payout, and r is the discount rate.

So in this case, the value of the investment is $PV = 10 / 0.05 = \$200$.

Final Answer: D. '\$200'

Answer Option 6:

The value of a perpetuity, which is a type of investment that pays out forever, is calculated as the payment amount divided by the discount rate. In this case, the payment amount is \$10 per year and the discount rate is 5%, or 0.05.

So, the value of the investment is $\$10 / 0.05 = \200 .

Final Answer: D

Answer Option 7:

The value of an investment that pays out perpetually (a "perpetuity") is calculated as the payout divided by the discount rate. In this case, the investment pays out \$10 per year and the discount rate is 5%, or 0.05. Therefore, the value of the investment is $\$10 / 0.05 = \200 . Final answer: D

Answer Option 8:

The value of a perpetuity (an investment that pays out forever) can be calculated using the formula $P = C/r$ where P represents the price of the investment, C represents the annual cash flow, and r represents the discount rate. In this case, $C = \$10$, and $r = 5\%$ or 0.05. Substituting these values into the formula gives $P = \$10 / 0.05 = \200 . Therefore, the worth of the investment is \$200. Final answer: D.

Answer Option 9:

The value of a perpetuity, which is a type of annuity that has no end, can be calculated by the formula $P = C/r$, where P is the price of the investment, C is the cash flow per period, and r is the discount rate.

Here, the cash flow per annum C is \$10 and the discount rate r is 5% or 0.05.

Substituting these values into the formula, we get:

$P = \$10/0.05 = \200

So, the investment is worth \$200. Final Answer: D

Question 12:

'Smith has an adjusted gross income (AGI) of \$120,000 without taking into consideration \$40,000 of losses from rental real estate activities. Smith actively participates in the rental real estate activities. What amount of the rental losses may Smith deduct in determining taxable income?'; A. '\$0', B. '\$15,000', C. '\$20,000', D. '\$40,000'

=====

Answer Option 1:

If Smith actively participates in the rental real estate activities, he can deduct rental losses up to \$25,000 against his other income. However, this loss is phased out by \$0.50 for every dollar that the adjusted gross income exceeds \$100,000. Since Smith's AGI without the rental loss is \$120,000, \$20,000 over the limit, the permissible rental loss deduction will be reduced by $\$20,000 \times \$0.50 = \$10,000$. Therefore, the amount Smith can deduct is $\$25,000 - \$10,000 = \$15,000$. Final Answer: B. '\$15,000'

Answer Option 2:

The IRS allows active participants in a rental real estate activity to deduct up to \$25,000 of loss against other income. However, this \$25,000 allowance is reduced by 50% of the amount by which the taxpayer's AGI exceeds \$100,000. In this case, Smith's AGI without considering the rental loss is \$120,000. So it exceeds \$100,000 by \$20,000.

50% of the exceeding amount (\$20,000) is \$10,000. So, the allowance gets reduced by \$10,000. Therefore, Smith can deduct $\$25,000 - \$10,000 = \$15,000$ of the rental losses in determining the taxable income. Final answer: B. '\$15,000'.

Answer Option 3:

The IRS allows a special \$25,000 allowance for losses from rental real estate in which the owner actively participates. However, this \$25,000 amount is reduced by 50% of the amount by which the AGI exceeds \$100,000. Smith's AGI is \$120,000, which is \$20,000 over the limit. Therefore, the \$25,000 allowance is reduced by $\$20,000/2 = \$10,000$. This leaves Smith with a \$15,000 allowance for rental real estate losses. So, Smith can deduct \$15,000 of the rental losses in determining taxable income. Final answer: B. '\$15,000'

Answer Option 4:

Under the IRS rules for passive activity losses, if Smith actively participates in the rental real estate activities, he can deduct rental real estate losses of up to \$25,000 against his other income. However, this \$25,000 limit starts to phase out when a taxpayer's adjusted gross income (AGI) exceeds \$100,000. The deduction is reduced by \$1 for every \$2 of AGI over \$100,000. Therefore, since Smith's AGI is \$120,000, the excess of \$20,000 over \$100,000 reduces the maximum deductible loss by \$10,000 ($\$20,000 / 2$), resulting in a maximum deductible loss of \$15,000 ($\$25,000 - \$10,000$). Final Answer: B. '\$15,000'

Answer Option 5:

Under the passive activity rules, if Smith actively participates in the rental real estate activities, he can deduct rental losses up to \$25,000. This \$25,000 allowance is reduced by 50% of the amount his AGI exceeds \$100,000. Since his AGI is \$120,000, his AGI exceeds \$100,000 by \$20,000. Hence, the allowable deduction is reduced by $\$20,000 \times 50\% = \$10,000$. So, he can deduct $\$25,000 - \$10,000 = \$15,000$ of the rental losses. However, since he only has \$40,000 in losses, he can only deduct up to this amount. So, the amount of the rental losses Smith may deduct is \$15,000. Final Answer: B. '\$15,000'

Answer Option 6:

Since Smith actively participates in the rental real estate activities, he can deduct up to \$25,000 of rental real estate losses against his Adjusted Gross Income (AGI) under the "active participation exception". However, this exception begins to phase out when a taxpayer's AGI exceeds \$100,000 and completely phases out when AGI reaches \$150,000.

Smith's AGI is \$120,000. This is \$20,000 over the \$100,000 limit, so his \$25,000 allowance is reduced by half the amount that his AGI exceeds \$100,000.

Half of \$20,000 is \$10,000, so we subtract this from \$25,000 to find that Smith can deduct \$15,000 of his rental real estate losses from his AGI.

Final answer: B. '\$15,000'

Answer Option 7:

According to the IRS rules, if you or your spouse actively participated in a passive rental real estate activity, you may be able to deduct up to \$25,000 of loss from the activity from your nonpassive income.

This special allowance is an exception to the general rule disallowing losses in excess of income from passive activities.

However, this special allowance is reduced if your adjusted gross income exceeds certain amounts. The phase-out range is \$100,000 to \$150,000. This means that the special allowance of \$25,000 is reduced by 50% of the amount by which the AGI exceeds \$100,000. In this case, Smith's AGI is \$120,000, so it exceeds the limit by \$20,000. Therefore, the special allowance is reduced by $\$10,000$ ($\$20,000 \times 50\%$).

So, Smith can deduct only \$15,000 ($\$25,000 - \$10,000$) of the rental losses in determining taxable income. Hence, the answer is B. '\$15,000'.

Answer Option 8:

Since Smith actively participates in the rental real estate activities, he can deduct up to \$25,000 for rental real estate losses each year. However, this type of deduction will phase out for an AGI (Adjusted Gross Income) between \$100,000 and \$150,000.

For every \$2 above \$100,000, the \$25,000 limit decreases by \$1. In Smith's case, his AGI is \$120,000, which is \$20,000 over the limit of \$100,000. Therefore, the limit for rental loss deductions decreases by \$10,000 ($\$20,000$ divided by 2).

The limit is now \$15,000 ($\$25,000 - \$10,000$).

Therefore, Smith can deduct up to \$15,000 of the rental losses from his taxable income. Final Answer: B. '\$15,000'

Answer Option 9:

According to the IRS, if you or your spouse actively participated in a passive rental real estate activity, you can deduct up to \$25,000 of loss from the activity from your nonpassive income. This special allowance is an exception to the general rule disallowing losses in excess of income from passive activities. However, the \$25,000 special allowance is reduced if your modified adjusted gross income (MAGI) exceeds certain amounts. The phaseout range is \$100,000 to \$150,000 for married persons filing a joint return. In this case, Smith's AGI (without considering the rental losses) is \$120,000, which is \$20,000 into the phaseout range. For every \$2 over \$100,000, the \$25,000 allowance decreases by \$1. So Smith's allowable rental losses will have reduced by \$10,000 ($\$20,000/2$), and he can deduct \$15,000 ($\$25,000 - \$10,000$) of his rental losses in determining taxable income. Final answer: B. '\$15,000'

Question 13:

'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.'

=====

Answer Option 1:

A. 'Engagement performance.'

Answer Option 2:

A. 'Engagement performance.'

Answer Option 3:

A. 'Engagement performance.'

Answer Option 4:

A. 'Engagement performance.'

Answer Option 5:

A. 'Engagement performance.'

Answer Option 6:

A. 'Engagement performance.'

Answer Option 7:

A. 'Engagement performance.'

Answer Option 8:

A. 'Engagement performance.'

Answer Option 9:

A. 'Engagement performance.'

Question 14:

'A company predicted that it would manufacture 10,000 units of finished goods during March. The direct labor standards indicated that each unit of finished goods requires 2.4 direct labor hours at a standard wage of \$20 per hour, totaling \$48.00 per finished good unit. During March, the company actually made 9,000 units of finished goods. Production used 2.5 labor hours per finished unit, and the company actually paid \$21 per hour, totaling \$52.50 per unit of finished product. What amount is the company's direct labor rate variance for March?', A. '\$18,000', B. '\$22,500', C. '\$25,000', D. '\$40,500'

=====

Answer Option 1:

The labor rate variance is calculated as the actual hours worked times the difference between the standard rate and actual rate.

The actual hours worked is 9,000 units * 2.5 hours/unit = 22,500 hours.

The difference between the standard and actual rate is \$20/hour - \$21/hour = -\$1/hour.

So, the labor rate variance is 22,500 hours * -\$1/hour = -\$22,500.

Final answer: B. '\$22,500'

=====

Answer Option 2:

The labor rate variance is calculated as (Actual Rate - Standard Rate) * Actual Hours.

Given that:

Standard Rate = \$20 per hour

Actual Rate = \$21 per hour

Actual Hours = Actual Units * Actual Hours/Unit = 9000 units * 2.5 hours/unit = 22500 hours

Let's calculate: (21 - 20) * 22500 = \$22500

So, the company's direct labor rate variance for March is \$22500.

Final Answer: C. '\$25,000'

=====

Answer Option 3:

The labor rate variance is calculated as the difference between the standard labor rate and the actual labor rate, multiplied by the actual hours worked.

The standard labor rate is \$20/hour. The actual labor rate is \$21/hour. The difference is \$21 - \$20 = \$1/hour.

The actual hours worked can be calculated as follows: 2.5 hours/unit * 9,000 units = 22,500 hours.

Therefore, the labor rate variance is \$1/hour * 22,500 hours = \$22,500. The direct labor rate variance for March is therefore \$22,500.

Final Answer: B. '\$22,500'

=====

Answer Option 4:

The company's direct labor rate variance is the difference between the standard cost of labor and the actual cost of labor, based on the actual hours worked. The standard cost of labor per finished unit is \$48.00, and there were 9,000 units actually produced, resulting in a total standard cost of \$432,000.

The actual cost of labor per finished unit is \$52.50, and there were 9,000 units actually produced, resulting in a total actual cost of \$472,500.

Therefore, the company's direct labor rate variance for March is \$472,500-\$432,000 = \$40,500. The answer is D, '\$40,500'.

=====

Answer Option 5:

The labor rate variance is calculated as:

(actual hours of direct labor at actual rate) - (actual hours of direct labor at standard rate)

The actual hours of direct labor is calculated as:

(actual finished units) * (actual labor hours per unit) = 9000 units * 2.5 hours/unit = 22500 hours

So, the labor rate variance is:

(22500 hours * \$21/hour) - (22500 hours * \$20/hour) = \$472,500 - \$450,000 = \$22,500

The company's direct labor rate variance for March is \$22,500. Final Answer: B

=====

Answer Option 6:

The labor rate variance is a measure of difference between the budgeted cost of labor and the actual cost incurred. It is calculated as the difference between the standard labor rate and the actual labor rate, multiplied by the actual hours worked.

The standard labor cost per unit was \$48.00, and the actual cost was \$52.50 per unit. The actual hours worked per unit was 2.5 hours. Therefore, the labor rate variance is calculated as follows:

Labor rate variance = (Standard labor rate - Actual labor rate) * Actual hours worked

= (\$20 - \$21) * 2.5 hours/unit * 9000 units

= -\$1 * 2.5 * 9000

= -\$22,500

The labor rate variance is negative, which means the company spent more on labor than was budgeted. This is unfavorable for the company. Therefore, the correct answer is B. '\$22,500'.

Answer Option 7:

The direct labor rate variance is calculated as the difference between the standard cost of labor and the actual cost of labor, without considering the efficiency variance (the variance due to the difference in expected and actual hours worked).

The actual total labor cost in March was \$21 per hour x 2.5 hours x 9,000 units = \$472,500. The standard total labor cost in March was \$20 per hour x 2.4 hours x 9,000 units = \$432,000.

So, the direct labor rate variance for March is the actual total labor cost minus the standard total labor cost, which is \$472,500 - \$432,000 = \$40,500.

So, the company's direct labor rate variance for March is \$40,500.

Final Answer: D. '\$40,500'

Answer Option 8:

The direct labor rate variance is a measure of how a company's actual hourly wage paid to laborers compares to the company's standard or expected hourly wage. It's computed as the actual hours worked times the difference between the actual and standard wage rate.

In this case, the actual wage rate is \$21 and the standard wage rate is \$20. Therefore, the difference between the actual and standard wage rate is \$21 - \$20 = \$1.

The actual hours worked is the actual number of units produced times the actual labor hours per unit. So the actual hours worked is 9000 units * 2.5 hours/unit = 22500 hours.

Therefore, the direct labor rate variance is 22500 hours * \$1/hour = \$22,500 unfavorable. This is unfavorable because the actual wage rate is higher than the standard wage rate.

Final Answer: B

Answer Option 9:

The direct labor rate variance measures how much cost was incurred due to the difference between the actual hourly rate paid to labor and the standard hourly rate set by the company. The formula for the direct labor rate variance is:

Direct Labor Rate Variance = (Actual Hours Worked * Actual Rate) - (Actual Hours Worked * Standard Rate)

For March, the actual hours worked is 9,000 units * 2.5 hours/unit = 22,500 hours.

So, the Direct Labor Rate Variance = (22,500 hours * \$21/hour) - (22,500 hours * \$20/hour)

Direct Labor Rate Variance = \$22,500.

Thus, the answer is B. '\$22,500'.

Question 15:

The full-employment gross domestic product is \$1.3 trillion, and the actual gross domestic product is \$1.2 trillion. The marginal propensity to consume is 0.8. When inflation is ignored, what increase in government expenditures is necessary to produce full employment?, A. '\$100 billion', B. '\$80 billion', C. '\$20 billion', D. '\$10 billion'

=====

Answer Option 1:

The GDP gap is \$1.3 trillion - \$1.2 trillion = \$100 billion. With a multiplier of $\$1/(1-0.8) = 5\$$, an increase in government expenditures of $\$100 \text{ billion} / 5 = \20 billion is necessary to close the gap. Therefore, the correct answer is C. '\$20 billion'.

Answer Option 2:

The GDP gap is \$1.3 trillion - \$1.2 trillion = \$0.1 trillion = \$100 billion. The size of the requisite fiscal stimulus is the GDP gap divided by the multiplier. The multiplier is $\$1/(1 - \text{MPC}) = 1/(1 - 0.8) = 5\$$.

Therefore, the necessary increase in government expenditures is $\$100 \text{ billion} / 5 = \20 billion . Final Answer: C.

Answer Option 3:

The spending multiplier is $1/(1 - \text{marginal propensity to consume}) = 1/(1 - 0.8) = 5$. The GDP gap is the full-employment GDP - actual GDP = \$1.3 trillion - \$1.2 trillion = \$0.1 trillion = \$100 billion. So, the increase in government expenditures necessary to produce full employment is the GDP gap/spending multiplier = $\$100 \text{ billion} / 5 = \20 billion . Final Answer: C. '\$20 billion'

Answer Option 4:

The GDP output gap is \$1.3 trillion - \$1.2 trillion = \$100 billion. The spending multiplier is the reciprocal of $(1 - \text{the marginal propensity to consume})$, or $1/(1 - 0.8) = 5$. Therefore, the increase in government expenditures necessary to close the output gap is $\$100 \text{ billion} / 5 = \20 billion . The correct answer is C. '\$20 billion'.

Answer Option 5:

The government needs to close a gap of \$1.3 trillion - \$1.2 trillion = \$0.1 trillion = \$100 billion. The spending multiplier is $1 / (1 - \text{MPC}) = 1 / (1 - 0.8) = 5$. Therefore, the increase in government expenditures necessary to produce full employment is $\$100 \text{ billion} / 5 = \20 billion . Final answer: C. '\$20 billion'

Answer Option 6:

The full-employment gross domestic product (GDP) is the GDP that would be produced if all resources were fully employed. If the actual GDP is less than the full-employment GDP, then there is a recessionary gap.

To close the recessionary gap, government expenditures need to be increased. In this case, the government should increase expenditures by the amount of the recessionary gap divided by the multiplier. The multiplier equals $1/(1 - \text{the marginal propensity to consume})$, which is $1/(1 - 0.8) = 5$.

The recessionary gap is \$1.3 trillion - \$1.2 trillion = \$100 billion.

Therefore, the necessary increase in government expenditures is $\$100 \text{ billion} / 5 = \20 billion . Final Answer: C

Answer Option 7:

The difference between the full-employment GDP and the actual GDP is the GDP gap. So, the GDP gap is \$1.3 trillion - \$1.2 trillion = \$0.1 trillion or \$100 billion. Since the marginal propensity to consume (MPC) is 0.8, this means that for each dollar increase in income, consumption will increase by \$0.8 and savings (or leakages in the circular flow) will increase by \$0.2. Hence, to close the GDP gap of \$100 billion, the increase in government expenditures necessary would have to be $\$100 \text{ billion} / 0.8 = \125 billion . But this option isn't available. As a result, there may be a misunderstanding in the question.

Considering the options, it seems like the asked increase is the one that will be added to the consumption, not the total budget. As we established, 80% of the increase will be consumed, so we need a \$20 billion increase. So the answer is C. '\$20 billion'

Answer Option 8:

The difference between full-employment GDP and actual GDP is \$1.3 trillion - \$1.2 trillion = \$0.1 trillion = \$100 billion. This is also known as the recessionary gap.

The spending multiplier is equal to $\$1 / (1 - \text{marginal propensity to consume}) = 1 / (1 - 0.8) = 5\$$.

To close the recessionary gap, the necessary increase in government expenditures is equal to the recessionary gap divided by the spending multiplier, which is $\$100 \text{ billion} / 5 = \20 billion .

So, the answer is $\$20 \text{ billion}$. Final Answer: C

Answer Option 9:

The gap between the full-employment GDP (\$1.3 trillion) and the actual GDP (\$1.2 trillion) is \$1.3 trillion - \$1.2 trillion = \$0.1 trillion = \$100 billion. According to the multiplier effect, an initial change in spending can produce a larger change in economic activity. The multiplier is $1/(1-\text{MPC}) = 1/(1-0.8) = 5$. Therefore, to close a gap of \$100 billion, an increase in government expenditures of $\$100 \text{ billion} / 5 = \20 billion is required. So, the correct answer is '\$20 billion'. Final Answer: C.

Question 16:

'Which of the following types of audit evidence provides the least assurance of reliability?'. A. 'Receivable confirmations received from the client's customers.', B. 'Prenumbered receiving reports completed by the client's employees.', C. 'Prior months' bank statements obtained from the client.', D. 'Municipal property tax bills prepared in the client's name.'

=====

Answer Option 1:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 2:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 3:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 4:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 5:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 6:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 7:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 8:

B. 'Prenumbered receiving reports completed by the client's employees.'

Answer Option 9:

B. 'Prenumbered receiving reports completed by the client's employees.'

Question 17:

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 \$10000 Costs incurred for coding and testing to establish technological feasibility \$15000 Other coding and testing costs incurred after establishment of technological feasibility \$44000 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. '59000'

=====

Answer Option 1:

The costs incurred after the establishment of technological feasibility are the ones that should be capitalized as software cost. In this case, the amount is \$44000. Final answer: C

Answer Option 2:

According to accounting standards, costs related to software production that are incurred after the establishment of technological feasibility should be capitalized. In this case, the detailed program design cost and the cost incurred to establish technological feasibility are considered research and development costs, and should not be capitalized. Thus, the only cost that should be capitalized is the "other coding and testing costs incurred after establishment of technological feasibility," which is \$44,000. So the amount that should be capitalized as software cost is \$44,000. Final answer: C.

Answer Option 3:

According to the accounting standards, costs incurred to develop a software product can be capitalized once technological feasibility has been established. In this case, the costs of completing detailed program design and those incurred for coding and testing to establish technological feasibility (\$10,000 + \$15,000 = \$25,000) are considered research and development costs and should be expensed as they are incurred, not capitalized. The other coding and testing costs incurred after establishment of technological feasibility, \$44,000, should be capitalized as software costs. Hence, the amount that should be capitalized as software cost is \$44,000. Final answer: C

Answer Option 4:

According to the Software Cost Capitalization, only the costs incurred after the establishment of technological feasibility should be capitalized as software costs. Technological feasibility is established upon completion of a detailed program design or, in its absence, completion of a working model. Here, the detailed program design and costs incurred for coding and testing to establish technological feasibility are part of the research and development costs and should not be capitalized. Thus, only the "Other coding and testing costs incurred after establishment of technological feasibility" should be capitalized. Therefore, the amount that should be capitalized as software cost is \$44,000. Final answer: C

Answer Option 5:

The costs incurred after the establishment of technological feasibility can be capitalized according to accounting principles. In this case, it is \$44,000. So, the final answer is C. '\$44,000'.

Answer Option 6:

The costs for developing and producing software are capitalized (i.e., not expensed immediately) from the point of establishing technological feasibility. According to the provided information, the costs incurred after establishing technological feasibility amount to \$44,000. Thus, \$44,000 should be capitalized as software cost. Final Answer: C

Answer Option 7:

The costs incurred for coding and testing to establish technological feasibility and the completion of detailed program design are expensed as incurred. The other coding and testing costs incurred after the establishment of technological feasibility are capitalized. So, the amount that should be capitalized as software cost is \$44000. Final answer: C.

Answer Option 8:

The expenses that should be capitalized as software cost are those incurred after the establishment of technological feasibility. In this case, that would be the "Other coding and testing costs incurred after establishment of technological feasibility" which amount to \$44,000. Therefore, in Pipp's December 31 year 2 balance sheet, \$44,000 should be capitalized as software cost. Final Answer: C. '\$44,000'

Answer Option 9:

According to accounting practices, capitalizing software costs should only begin after the technological feasibility of a product is established. In this case, Pipp Co. established the technological feasibility of their product after the initial \$15,000 cost. Therefore, the costs incurred after the establishment of feasibility should be capitalized. This includes "other coding and testing costs incurred after establishment of technological feasibility" which equals \$44,000. So, the amount that should be capitalized as software cost is \$44,000. Final Answer: C

Question 18:

'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 „Äinternal use only.Ä', 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.'

=====

Answer Option 1:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 2:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 3:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 4:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 5:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 6:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 7:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 8:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Answer Option 9:

C. 'Add a separate paragraph to the accountant's report that discloses the departure from GAAP and its effects on the financial statements.'

Question 19:

'Under the Sales Article of the UCC, which of the following circumstances best describes how the implied warranty of fitness for a particular purpose arises in a sale of goods transaction?', A. 'The buyer is purchasing the goods for a particular purpose and is relying on the seller's skill or judgment to select suitable goods.', B. 'The buyer is purchasing the goods for a particular purpose and the seller is a merchant in such goods.', C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.', D. 'The seller knows the particular purpose for which the buyer will use the goods and the seller is a merchant in such goods.'

=====

Answer Option 1:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 2:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 3:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 4:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 5:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 6:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 7:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 8:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Answer Option 9:

C. 'The seller knows the particular purpose for which the buyer will use the goods and knows the buyer is relying on the seller's skill or judgment to select suitable goods.'

Question 20:

'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.'

=====

Answer Option 1:

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

Answer Option 2:

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

Answer Option 3:

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

Answer Option 4:

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

Answer Option 5:

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

Answer Option 6:

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

Answer Option 7:

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

Answer Option 8:

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

Answer Option 9:

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

Question 21:

'In an e-commerce environment that requires that the information technology (IT) system be available on a continuous basis, more emphasis will be placed on which of the following aspects of the planning than in a traditional organization?', A. 'Maintain appropriate written source documents so the data can be re-entered if it is lost or compromised', B. 'Maintain redundant systems for instant availability to assure the flow of transactions', C. 'Review additional expenses to obtain the required amount of business interruption insurance coverage for the organization', D. 'Assure that appropriate data backups are stored in an off-site location'

=====

Answer Option 1:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 2:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 3:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 4:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 5:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 6:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 7:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 8:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Answer Option 9:

B. 'Maintain redundant systems for instant availability to assure the flow of transactions'

Question 22:

'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 \$3000. Assuming Spark desired a profit of 10% of sales how many units must Spark sell?', A. '600', B. '400', C. '200', D. '100'

=====

Answer Option 1:

The desired profit is 10% of the sales. So, for each phone sold, the desired profit is 10% of \$200, which is \$20. The remaining \$180 from each sale goes to cover cost and commission. Since Spark buys each phone for \$125 and pays a commission of \$25 per phone sold, the cost per phone is \$150. Therefore, \$180 - \$150 = \$30 from each phone sale, after cost and commission, goes towards covering the monthly fixed costs. To cover a fixed cost of \$3000 with \$30 per phone, Spark needs to sell $\$3000 / \$30 = 100$ phones to break even. However, this does not account for the desired profit. For each phone sold, there is a desired profit of \$20. Therefore, in order to achieve this profit, Spark would have to sell an additional $\$3000 / \$20 = 150$ phones. In total, Spark must sell $100 + 150 = 250$ phones. However, this is not an option, therefore the correct answer is B. '400'

Answer Option 2:

Let the number of units sold be x. Total revenue generated by selling x units is $200x$. The desired profit is 10% of total revenue, which is $0.1 * 200x = 20x$.

The cost function of the phones is the fixed cost (\$3000) plus the cost of each phone (\$125) plus the sales commission (\$25) for each unit sold. Therefore, the total cost for x units is $\$3000 + (\$125 + \$25)x = \$3000 + \$150x$.

The profit is revenue minus cost. Therefore, $20x = 200x - (\$3000 + \$150x)$.

Solving for x gives $x = \$3000 / \$50 = 60$ units.

But the problem asks for an answer in the hundreds, so we must have misinterpreted the question. The desired profit of 10% isn't $20x$, it's $20x$ on top of the costs. This means that the total revenue, $200x$, should be 110% of the costs, not 100%.

The costs are $\$3000 + 150x$, so we set up the equation $200x = 1.1(\$3000 + 150x)$

Solving for x, we find $x = \frac{\$3000}{200 - 165} = \frac{\$3000}{35} \approx 85.71$.

Since Spark can't sell a fraction of a phone, they must sell at least 86 phones to meet their profit goal. But since the answer choices are given in hundreds, the correct response is $\boxed{100}$.

Final Answer: D

Answer Option 3:

The profit per phone sold is the selling price minus the buying price and the commission, so $\$200 - \$125 - \$25 = \50 .

Spark wants a profit of 10% of sales, so the total sales must be $\$3000 / 0.10 = \30000 .

Thus, Spark must sell $\$30000 / \$50 = \boxed{600}$ phones. Final answer: A

Answer Option 4:

The profit per phone sold is the selling price minus the cost and commission, which is $\$200 - \$125 - \$25 = \50 .

The profit of 10% of the sales means a profit of $\$200 * 0.10 = \20 per phone.

Therefore, the company has to cover the monthly fixed costs of \$3000 with the difference of \$50 (profit per phone) - \$20 (desired profit per phone) = \$30 per phone.

So, the company has to sell $\$3000 / \$30 = \boxed{100}$ phones. Final answer: D.

Answer Option 5:

First, calculate the profit Spark makes on each phone sold:

$\$200 - 125 - 25 = \50 .

10% of sales is:

$10\% \times \$200 = \20

So, the profit target per phone is:

$\$50 + \$20 = \$70$

Then, divide the fixed costs by the profit target per phone to get the number of units Spark must sell:

$\$3000 / \$70 = \text{approx. } 43 \text{ units.}$

However, since they can't sell partial units, they will need to sell at least 44 units to cover the fixed costs and reach their profit target. Final answer: C '200' (The provided options do not include the correct answer).

Answer Option 6:

Spark purchases the phones for \$125 and sells them for \$200, thus making a profit of \$75 per phone. However, a commission of \$25 is paid on each phone sold, so the actual profit per phone is \$50.

Spark wants a profit of 10% of sales. The selling price of a phone is \$200, so they want a profit of \$20 per phone sold ($\$200 * 10\%$).

So, Spark would need to sell $\$3000 \text{ (monthly fixed costs)} / \$20 \text{ (profit per phone)} = 150$ phones to cover the fixed costs.

But they also want to make an additional \$20 profit per phone.

Thus, the total per phone is $\$50 \text{ (profit per phone)} + \$20 \text{ (desired profit)} = \70

Therefore, they would need to sell $\$3000$ (monthly fixed costs) / $\$70$ (total per phone) = 43 phones to cover the fixed costs and make the desired profit.

However, since phones cannot be sold in fractions, the company needs to sell at least 44 phones.

Still, 44 phones would only bring in $\$44 * \$20 = \$880$ of profit, which is less than 10% of sales.

To achieve 10% of sales as profit, they need to sell a lot more phones.

Let's denote by x the number of phones they need to sell.

They need to solve the following equation for x :

$$\$200x * 10\% = \$50x + \$3000$$

$$20x = 50x + 3000$$

$$3000 = 30x$$

$$x = 100$$

So they need to sell at least 100 phones to achieve a profit of 10% of sales.

Final Answer: D. '100'

Answer Option 7:

Let's denote the number of phones sold as ' n '.

The cost price of each phone is $\$125$ and a further $\$25$ is paid as a commission. This makes the total cost per phone $\$150$.

The total cost for ' n ' phones is $\$150n + \3000 (including the fixed costs).

The selling price of each phone is $\$200$, so the total revenue from selling ' n ' phones is $200n$.

Spark desires a profit of 10% of sales. That means the total revenue is equal to the total cost plus 10% of the total revenue:

$$\$200n = 150n + 3000 + 0.1(200n)$$

Solving the above equation for ' n ' gives:

$$n = 400.$$

Therefore, Spark must sell 400 units to achieve a profit of 10% of sales. Final answer: B

Answer Option 8:

The profit per phone sold is selling price - cost price - sales commission = $\$200 - \$125 - \$25 = \50 .

The desired profit is 10% of sales, which is 10% of $\$200 = \20 per phone.

So, the actual profit per phone that goes towards covering the fixed costs is $\$50 - \$20 = \$30$.

To cover the fixed costs of $\$3000$, Spark needs to sell $\$3000 / \$30 = 100$ phones.

However, Spark also needs to make a profit of $\$20$ on each of these phones, so they need to sell an additional $\$3000 / \$20 = 150$ phones to make their desired profit.

So, in total, Spark must sell $100 + 150 = 250$ phones. But there's no such an option, so a mistake has likely been made. The correct calculation is $\$3000 / \$50 = 60$ phones to cover the fixed costs and $\$3000$

/ $\$20 = 150$ phones to make the desired profit, so in total, Spark must sell $60 + 150 = 210$ phones, but there's no such an option. So, the problem seems to have no correct answer among the

offered options.

Answer Option 9:

First, we need to calculate the profit per unit. For each phone sold, Spark makes $\$200 - \$125 - \$25 = \50 .

Next, we need to determine the desired total profit. Spark wants a profit of 10% of sales, and sales are $\$200$ per phone. Therefore, the desired profit per phone is $\$200 * 10\% = \20 .

However, this does not yet take into account the fixed costs of $\$3000$. To cover these costs and still make a profit of $\$20$ per phone, Spark needs to make $\$50$ (profit per phone) + $\$20$ (desired profit per phone) = $\$70$ per phone.

To figure out how many phones Spark needs to sell, we divide the fixed costs by the profit per phone after covering the desired profit: $\$3000 / \$70 = 43$ phones.

But we can't sell a fraction of a phone, and if we sell 43 phones, we won't make any profit, so we need to sell at least 44 phones. However, selling 44 phones only yields a profit of $\$880$, which is less than

10% of the total sales ($\$8800$). Therefore, Spark must sell more phones.

If Spark sells 45 phones, the profit is $\$900$, which is more than 10% of the total sales ($\$9000$), so the minimum number of phones Spark needs to sell is 45. However, option 45 is not available among the

choices. The question might have a typo.

Considering the options provided, the closest to the calculated value is '100'. So, assuming there was a typo in the question, the final answer should be D. However, this would only be correct if the question

had a typo. If the question is correct as it is, then none of the options provided would be correct.

Question 23:

'Inherent risk and control risk differ from detection risk in which of the following ways?', A. 'Inherent risk and control risk are calculated by the client.', B. 'Inherent risk and control risk exist independently of the audit.', C. 'Inherent risk and control risk are controlled by the auditor.', D. 'Inherent risk and control risk exist as a result of the auditor's judgment about materiality.'

=====

Answer Option 1:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 2:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 3:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 4:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 5:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 6:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 7:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 8:

B. 'Inherent risk and control risk exist independently of the audit.'

Answer Option 9:

B. 'Inherent risk and control risk exist independently of the audit.'

Question 24:

'Ultra Co. uses a periodic inventory system. The following are inventory transactions for the month of January: 1/1 Beginning inventory 20000 units at \$13 1/20 Purchase 30000 units at \$15 1/23 Purchase 40000 units at \$17 1/31 Sales at \$20 per unit 50000 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. '1000000'

=====

Answer Option 1:

The LIFO (Last-In, First-Out) method assumes that the most recent purchases are sold first. Ultra sold 50,000 units in January. According to the LIFO method, Ultra first sold the 40,000 units purchased on January 23 at \$17 each (total cost \$680,000), and then sold 10,000 of the units purchased on January 20 at \$15 each (total cost \$150,000). Thus, the cost of goods sold in January was \$680,000 + \$150,000 = \$830,000. Final answer: C. '\$830,000'

Answer Option 2:

Under Last-In-First-Out (LIFO) method, the last goods purchased are assumed to be the first goods sold. For the sales of 50,000 units on January 31, the cost will be calculated as follows:

40,000 units from the January 23 purchase at \$17 = \$680,000

10,000 units from the January 20 purchase at \$15 = \$150,000

So, the total cost of goods sold for January will be \$680,000 + \$150,000 = \$830,000.

Final Answer: C. '\$830,000'

Answer Option 3:

Under the Last-In, First-Out (LIFO) method, we assume that the last units purchased are the first ones sold.

So, for the 50000 units sold, we first take the cost of the last 40000 units purchased at \$17 each, which gives $40000 \times \$17 = \$680,000$.

We still need the cost of 10000 units, which we take from the 30000 units purchased at \$15 each, giving $10000 \times \$15 = \$150,000$.

So, the total cost of goods sold is $\$680,000 + \$150,000 = \$830,000$.

Final answer: C

Answer Option 4:

Under the LIFO (Last-In, First-Out) method, the last goods purchased are assumed to be the first ones sold. Therefore, we begin by selling the 40,000 units purchased on January 23 at \$17 each for a total of $40000 \times \$17 = \$680,000$.

We still need to account for 10,000 more units sold (50000 total units sold - 40000 units just accounted for). These 10,000 units are sold from the 30,000 units purchased on January 20 at \$15 each, totaling $10000 \times \$15 = \$150,000$.

Adding these two amounts together, the cost of goods sold for January is $\$680,000 + \$150,000 = \$830,000$.

Final Answer: C. '\$830,000'

Answer Option 5:

LIFO stands for "Last In, First Out", which means the most recently acquired inventory is sold first. Ultra sold 50,000 units in January. According to the LIFO method, the 40,000 units purchased on January 23 (at \$17 each) will be sold first. That accounts for \$680,000 (40,000 units * \$17/unit) of the cost of goods sold.

There are still 10,000 units to account for (50,000 units sold - 40,000 units already accounted for). These will come from the 30,000 units purchased on January 20 (at \$15 each). So that's another \$150,000 (10,000 units * \$15/unit) in cost of goods sold.

So, the total cost of goods sold for January, according to the LIFO method, is $\$680,000 + \$150,000 = \boxed{\$830,000}$. Final answer: C

Answer Option 6:

Under the LIFO (Last-In, First-Out) method, the latest purchased merchandise is sold first. In this case, the company sold 50,000 units in January.

To meet this demand, it would first use the 40,000 units purchased on January 23, which cost \$17 each, for a total of \$680,000.

The remaining 10,000 units would come from the 30,000 units purchased on January 20, which cost \$15 each, for a total of \$150,000.

Therefore, the cost of goods sold would be $\$680,000 + \$150,000 = \$830,000$. Final Answer: C.

Answer Option 7:

Under the LIFO (Last-In-First-Out) method, the last goods purchased are the first ones to be sold. So, for the 50,000 units sold, the cost of goods sold is calculated from the latest purchases first.

From the 40,000 units purchased on 1/23 at \$17 per unit, 40,000 units will be sold for a cost of \$680,000 (40,000 units x \$17/unit).

The remaining 10,000 units come from the 30,000 units purchased on 1/20 at \$15 per unit. This gives a cost of \$150,000 (10,000 units x \$15/unit).

Therefore, the total cost of goods sold for January is $\$680,000 + \$150,000 = \$830,000$.

Final Answer: C. '\$830,000'

Answer Option 8:

Under the LIFO (Last-In, First-Out) method, we assume that the last goods purchased are the first ones to be sold. So the cost of goods sold is calculated based on the cost of the latest purchases.

According to the LIFO method, the 50,000 units sold would consist of:

- All 40,000 units purchased on January 23 at \$17 per unit
- 10,000 of the 30,000 units purchased on January 20 at \$15 per unit

So, the cost of goods sold would be $(40,000 \text{ units} \times \$17/\text{unit}) + (10,000 \text{ units} \times \$15/\text{unit}) = \$680,000 + \$150,000 = \$830,000$

Therefore, Ultra should report a cost of goods sold of \$830,000 on its income statement for the month of January. Final Answer: C

Answer Option 9:

According to LIFO (Last-In-First-Out) method, the last goods purchased are the first ones to be sold.

The cost of goods sold (COGS) is calculated based on the sales.

The company sold 50000 units in January. The costs of these units are calculated as follows:

- The last purchased units are the first ones to be sold. So, the first 40000 units sold are the ones that were bought on 1/23 at \$17 per unit. Therefore, the cost for these is $40000 \times \$17 = \$680,000$.
- The remaining 10000 units sold are the ones that were bought on 1/20 at \$15 per unit. So, the cost for these is $10000 \times \$15 = \$150,000$.

Therefore, Ultra should report the cost of goods sold as $\$680,000 + \$150,000 = \$830,000$. Final Answer: C. '\$830,000'

Question 25:

'On day 1, Jackson, a merchant, mailed Sands a signed letter that contained an offer to sell Sands 500 electric fans at \$10 per fan. The letter was received by Sands on day 3. The letter contained a promise not to revoke the offer but no expiration date. On day 4, Jackson mailed Sands a revocation of the offer to sell the fans. Sands received the revocation on day 6. On day 7, Sands mailed Jackson an acceptance of the offer. Jackson received the acceptance on day 9. Under the Sales Article of the UCC, was a contract formed?', A. 'No contract was formed because the offer failed to state an expiration date.', B. 'No contract was formed because Sands received the revocation of the offer before Sands accepted the offer', C. 'A contract was formed on the day Jackson received Sands' acceptance', D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

=====

Answer Option 1:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 2:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 3:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 4:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 5:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 6:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 7:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 8:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Answer Option 9:

D. 'A contract was formed on the day Sands mailed the acceptance to Jackson'

Question 26:

'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? Liability Expense', A. '\$1600 \$1200', B. '\$1600 \$2800', C. '\$0 \$1200', D. '\$0 \$2800'

=====

Answer Option 1:

The first employee has used his vacation, which cost the company $\$600 \times 2 = \1200 . The second employee has not used his vacation, so the company owes him $\$800 \times 2 = \1600 in future vacation pay. This is a liability for the company, because they owe the money but have not yet paid it. The total expense for the company is the cost of the first employee's vacation (\$1200) plus the liability for the second employee's vacation (\$1600), or \$2800. So, the company should report a vacation liability of \$1600 and a vacation expense of \$2800. Final answer: B

Answer Option 2:

The vacation liability is the amount Elan Co. owes to its employees for the vacation time they've accrued but have not yet used. One employee took no vacation, so they have two weeks of vacation saved up, which is worth $\$800/\text{week} \times 2 \text{ weeks} = \1600 .

The vacation expense is the amount Elan Co. has spent on employee vacations throughout the year. One employee took a two-week vacation during the year, which is worth $\$600/\text{week} \times 2 \text{ weeks} = \1200 .

So, Elan should report \$1600 as vacation liability and \$1200 as vacation expense. Final answer: A. '\$1600 \$1200'

Answer Option 3:

The vacation liability at year-end is the amount Elan owes to its employees for vacation time that has been earned but not yet taken. Since the \$800-per-week employee didn't take a vacation, Elan owes him for two weeks of vacation, or \$1600. The \$600-per-week employee took his vacation, so Elan doesn't owe him anything. The total vacation liability is \$1600.

The vacation expense for the year is the total amount Elan owes to its employees for vacation time earned during the year, whether or not the employees took their vacation. Each employee earns two weeks of vacation, so the total vacation expense is $\$600 \times 2 + \$800 \times 2 = \$2800$.

So the correct answer is '\$1600 \$2800'. Final answer: B.

Answer Option 4:

Elan Co. should report vacation liability as \$1600 because one worker has two weeks of unused vacation, and they make \$800 per week (so $2 \times \$800 = \1600).

The vacation expense for the year should be \$2800. One worker used two weeks of vacation at \$600 per week (so $2 \times \$600 = \1200), and the other worker accrued two weeks of vacation at \$800 per week (so $2 \times \$800 = \1600). The total vacation expense is therefore $\$1200$ (used vacation) + $\$1600$ (accrued vacation) = \$2800.

Final answer: B. '\$1600 \$2800'

Answer Option 5:

The vacation liability and expense account for both the vacation time that has been used and the vacation time that has been accrued but not used.

The first employee used two weeks of vacation, which cost the company $\$600 \times 2 = \1200 .

The second employee did not use any vacation, but they still accrued two weeks of vacation time. This time is valued at $\$800 \times 2 = \1600 .

So, the total vacation expense for the year is $\$1200$ (used vacation time) + $\$1600$ (accrued vacation time) = \$2800. The accrued vacation time of \$1600 is the liability that the company still owes to its employees. Therefore, the company should report a vacation liability of \$1600 and a vacation expense of \$2800.

Final Answer: B. '\$1600 \$2800'

Answer Option 6:

The vacation liability is the amount Elan Company owes to its employees for their unused vacation. It's the accumulation of unpaid vacation days. The employee who did not take a vacation has 2 weeks of vacation saved up, which is equal to $2 \times \$800 = \1600 . Hence, the vacation liability for Elan Company is \$1600.

The vacation expense is the total cost the company incurred for employee vacations throughout the year. This includes both used and accumulated vacation days. For Elan Company, one employee used 2 weeks of vacation, costing $2 \times \$600 = \1200 , and the other employee accumulated 2 weeks of vacation, costing $2 \times \$800 = \1600 . Therefore, the total vacation expense for the company is $\$1200 + \$1600 = \$2800$.

So, the correct answer is: '\$1600 \$2800'. Final Answer: B

Answer Option 7:

Vacation liability is the amount that the company owes to its employees for the vacation time they have accrued but not used. The employee who earns \$800 per week did not take any vacation, so the company owes this employee for two weeks of vacation, which amounts to \$1600. Thus, the vacation liability is \$1600.

On the other hand, vacation expense is the amount that the company has to pay its employees for the vacation time. This includes both the vacation time taken and the vacation time accrued but not used.

The employee who earns \$600 per week took a two-week vacation, which costs the company \$1200, and the employee who earns \$800 per week accrued two weeks of vacation time but did not use it, which costs the company \$1600. Thus, the total vacation expense is $\$1200 + \$1600 = \$2800$.

So, the answer is '\$1600 \$2800'. Final answer: B

Answer Option 8:

Elan Co. should report as vacation liability the amount of money they would need to pay if both employees took their two weeks of vacation. This is $\$600 \times 2 + \$800 \times 2 = \$1600 + \$1600 = \$3200$.

The expense reported is the amount of money that was actually paid to employees for their vacation during the year. In this case, only one employee took a vacation, and they were paid \$600 for each of the two weeks, so the total expense is $\$600 \times 2 = \1200 . Therefore, Elan Co. should report a vacation liability of \$3200 and expense of \$1200. However, none of the provided answer choices match this. There seems to be a mistake in the question or the answer choices.

Answer Option 9:

The total vacation expense for the year is the sum of the vacation accruals for each employee. The employee making \$600 a week accrues two weeks of vacation, or \$1200 in vacation pay. The employee making \$800 a week also accrues two weeks of vacation, or \$1600 in vacation pay. So, the total vacation expense is $\$1200 + \$1600 = \$2800$.

The vacation liability is the amount of vacation pay that has been accrued but not yet paid out. Since the \$600-a-week employee took their vacation, that \$1200 has been paid out and does not count towards the liability. However, the \$800-a-week employee did not take their vacation, so the full \$1600 they accrued counts towards the liability.

So, the company should report a vacation liability of \$1600 and a vacation expense of \$2800. Final Answer: B

Question 27:

'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.'

=====

Answer Option 1:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 2:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 3:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 4:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 5:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 6:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 7:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 8:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Answer Option 9:

D. 'The unemployment insurance system is administered by the states through their employment laws.'

Question 28:

'When the AQR partnership was formed, partner Acre contributed land with a fair market value of \$100,000 and a tax basis of \$60,000 in exchange for a one-third interest in the partnership. The AQR partnership agreement specifies that each partner will share equally in the partnership's profits and losses. During its first year of operation, AQR sold the land to an unrelated third party for \$160,000. What is the proper tax treatment of the sale?', A. 'Each partner reports a capital gain of \$33,333.', B. 'The entire gain of \$100,000 must be specifically allocated to Acre.', C. 'The first \$40,000 of gain is allocated to Acre, and the remaining gain of \$60,000 is shared equally by the other two partners.', D. 'The first \$40,000 of gain is allocated to Acre, and the remaining gain of \$60,000 is shared equally by all the partners in the partnership.'

=====

Answer Option 1:

B. 'The entire gain of \$100,000 must be specifically allocated to Acre.'

=====

Answer Option 2:

A. 'Each partner reports a capital gain of \$33,333.'

=====

Answer Option 3:

A. 'Each partner reports a capital gain of \$33,333.'

=====

Answer Option 4:

D. 'The first \$40,000 of gain is allocated to Acre, and the remaining gain of \$60,000 is shared equally by all the partners in the partnership.'

=====

Answer Option 5:

A. 'Each partner reports a capital gain of \$33,333.'

=====

Answer Option 6:

A. 'Each partner reports a capital gain of \$33,333.'

=====

Answer Option 7:

B. 'The entire gain of \$100,000 must be specifically allocated to Acre.'

=====

Answer Option 8:

B. 'The entire gain of \$100,000 must be specifically allocated to Acre.'

=====

Answer Option 9:

C. 'The first \$40,000 of gain is allocated to Acre, and the remaining gain of \$60,000 is shared equally by the other two partners.'

=====

Question 29:

'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.'

=====

Answer Option 1:

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

Answer Option 2:

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

Answer Option 3:

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

Answer Option 4:

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

Answer Option 5:

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

Answer Option 6:

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

Answer Option 7:

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

Answer Option 8:

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

Answer Option 9:

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

Question 30:

'What is the price of a five-year bond (face value \$100) that pays no coupons, if its yield is 4%?', A. '\$100', B. '\$85', C. '\$82', D. '\$75'

=====

Answer Option 1:

A zero-coupon bond (which pays no coupons) is priced based on the formula:

$$\text{Price} = \text{Face Value} / (1 + \text{Yield})^n$$

where n is the number of years until maturity. Plugging in the given values:

$$\text{Price} = \$100 / (1 + 0.04)^5 = \$100 / 1.2166529 = \$82.19$$

So, the price of the bond is approximately \$82.19, which rounds to the nearest whole number as \$82. Final answer: C

Answer Option 2:

The price of a zero-coupon bond can be calculated using the formula $P = F / (1+r)^n$ where P is the price of the bond, F is the face value, r is the yield rate, and n is the number of periods.

Here, F = \$100, r = 4% or 0.04, and n = 5.

$$\text{So, } P = 100 / (1 + 0.04)^5 = 100 / (1.04)^5 = \$82.$$

Final answer: C. '\$82'.

Answer Option 3:

The price of a zero-coupon bond (a bond that pays no coupons) is given by the formula:

$$\text{Price} = \text{Face Value} / (1 + r)^n$$

where r is the yield (interest rate) and n is the number of years until maturity.

So in this case, the price of the bond is:

$$\text{Price} = 100 / (1 + 0.04)^5$$

Calculating this gives:

$$\text{Price} = 100 / 1.2166529024 = 82.19 \text{ (approximately)}$$

Rounding to the nearest dollar gives \$82. So the correct answer is:

C. '\$82'

Answer Option 4:

A zero-coupon bond does not pay interest but instead sells at a discount, providing a return to the bondholder when the bond matures. The bond's price is calculated as follows:

$$P = F / (1 + r)^n$$

where:

P = price

F = face value

r = yield or interest rate

n = number of periods

For this specific bond:

$$P = 100 / (1.04^5)$$

$$P = 100 / 1.2166529$$

$$P = 82.19$$

So, the price of the bond is approximately \$82.19, which is closest to \$82.

Final Answer: C

Answer Option 5:

The price of a zero-coupon bond (a bond that does not pay periodic interest payments and only pays the face value at maturity) can be calculated using the formula:

$$\text{Price} = \text{Face Value} / (1 + \text{yield rate})^{\text{number of periods}}$$

Here, the face value is \$100, the yield rate is 4% (or 0.04), and the number of periods is 5 years.

Substituting these values into the formula, we get:

$$\text{Price} = 100 / (1 + 0.04)^5$$

Calculating this, the price of the bond is approximately \$82.19, so the closest answer is C '\$82'.

Answer Option 6:

The price of a zero-coupon bond is calculated using the formula:

$$P = F / (1 + r)^n$$

where:

P = price of the bond

F = face value of the bond

r = yield or rate of return

n = number of periods until maturity

For a five-year bond with a face value of \$100 and a yield of 4%, the price would be calculated as follows:

$$P = \$100 / (1 + 0.04)^5$$

Therefore, the price of the bond is approximately \$82. The final answer is C. '\$82'.

Answer Option 7:

The price of a zero-coupon bond is given by its face value divided by (1 + yield) raised to the power of the bond's term. In this case, the price would be $\$100 / (1 + 0.04)^5 = \$100 / 1.2166529024 = \$82.19$.

Since the options do not include decimals, we round this to the nearest whole number, which is \$82. Final answer: C.

Answer Option 8:

A zero-coupon bond is a bond that pays no coupons and only returns the principal amount at maturity. The price (P) of a zero-coupon bond is given by the formula:

$$P = \text{Face Value} / (1 + \text{yield})^n$$

where yield is the annual yield (as a decimal) and n is the number of years until maturity.

Substituting the given values:

$$P = 100 / (1 + 0.04)^5$$

$$P = 100 / 1.21665$$

$$P = 82.19 \text{ (approximately)}$$

The closest value to this is '\$82', so the final answer is C.

Answer Option 9:

The price of a zero-coupon bond is given by the formula:

$$P = F / (1 + r)^n$$

where:

P = price of the bond

F = face value of the bond

r = yield or interest rate

n = number of periods until maturity

Substituting the given values into the formula, we get:

$$P = 100 / (1 + 0.04)^5$$

This comes out to be approximately 82. Therefore, the price of the bond is approximately \$82. Final answer: C.

Question 31:

'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 7500 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. '442500'

=====

Answer Option 1:

Year 1 state franchise tax refund \$50,000 and municipal bond interest income \$7,500 are both tax-exempt income. Therefore, these amounts should be subtracted from the book income to determine the taxable income. Thus, $\$500,000 - \$50,000 - \$7,500 = \$442,500$. Final Answer: D. '\$442500'

Answer Option 2:

The taxable income is calculated by omitting the non-taxable items from the book income. The state franchise tax refund is taxable, so it will be included, but the municipal bond interest income is tax-exempt and should be deducted from the total.

So, the taxable income is $\$500,000$ (total income) - $\$7,500$ (municipal bond interest income) = $\$492,500$.

Final answer: B. '\$492,500'

Answer Option 3:

The state franchise tax refund of \$50,000 and municipal bond interest of \$7,500 are both tax-exempt items for federal income taxes. These are subtracted from the reported book income to arrive at the taxable income. So, the taxable income as reconciled on Vital's Schedule M-1 of Form 1120 U.S. Corporation Income Tax Return would be $\$500,000 - \$50,000 - \$7,500 = \$442,500$. Final answer: D

Answer Option 4:

The taxable income differs from the book income in that some items are treated differently for tax and book purposes. The year 1 state franchise tax refund of \$50,000 would be taxable in year 2. The municipal bond interest income of \$7,500 is tax-exempt. Therefore, the taxable income would be the book income of \$500,000, plus the taxable state tax refund, minus the tax-exempt interest. So, the taxable income would be $\$500,000 + \$50,000 - \$7,500 = \$542,500$. However, none of the provided options match this calculation. It seems there might be a mistake in the provided options or in the problem itself.

Answer Option 5:

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 7500.

The year 1 state franchise tax refund of \$50,000 is taxable in year 2 when received, therefore it will increase the taxable income. Municipal bond interest income is tax-exempt for federal income tax purposes, so it will decrease the taxable income.

Therefore, Vital's year 2 taxable income should be $\$500,000$ (originally reported book income) + $\$50,000$ (state franchise tax refund) - $\$7,500$ (municipal bond interest income) = $\$542,500$. None of the provided options match this calculation.

Answer Option 6:

Vital Corp. is a C corporation and uses the accrual method of accounting. Its year 2 reported book income before federal income taxes was \$500,000. This income includes a state franchise tax refund from year 1 of \$50,000 and municipal bond interest of \$7,500.

According to the Internal Revenue Code, the state franchise tax refund is taxable and should be included in the corporation's taxable income. However, the interest income from municipal bonds is tax-exempt.

Therefore, to reconcile the book income to taxable income on Schedule M-1 of Form 1120, we subtract the tax-exempt interest income from the book income.

So, the taxable income would be $\$500,000 - \$7,500 = \$492,500$.

Final answer: B. '\$492,500'.

Answer Option 7:

To calculate the taxable income, you need to take into account the adjustments to the reported book income.

1. The Year 1 state franchise tax refund is taxable in Year 2, so it needs to be added to the book income.
2. The municipal bond interest income is tax-exempt and must be subtracted from the book income.

Based on the provided information, Vital's taxable income would be $\$500,000$ (book income) + $\$50,000$ (state franchise tax refund) - $\$7,500$ (municipal bond interest income) = $\$542,500$.

However, none of the options given matches this calculation. It seems like there might be a mistake in the problem or the options provided. Be sure to check for any additional information or adjustments that might affect the taxable income. Please provide it if any.

Answer Option 8:

To reconcile the book income to taxable income, we would start with the reported book income of \$500,000, add back the tax-exempt interest of \$7,500 because even though it reduces book income, it does not reduce taxable income, and subtract the state franchise tax refund of \$50,000 because it increases book income but is not taxable. So, the taxable income would be $\$500,000 + \$7,500 - \$50,000 = \$457,500$. However, none of the options match this figure.

This indicates that perhaps the municipal bond interest income is not tax-exempt for corporations, contrary to what it is for individuals. Therefore, we should not add it back in, and the taxable income should be $\$500,000 - \$50,000 = \$450,000$. Therefore, the correct option would be C. '\$450,000'.

Answer Option 9:

The year 1 state franchise tax refund of \$50,000 should be included in Vital's year 2 taxable income, as it would be taxable under the tax benefit rule. The municipal bond interest income of \$7,500 is generally exempt from federal income tax for corporations. Therefore, Vital's year 2 taxable income as reconciled on its Schedule M-1 should be $\$500,000 - \$7,500$ (the tax-exempt municipal bond interest) + \$50,000 (the state franchise tax refund) = \$542,500. However, the state franchise tax refund was already included in the reported book income of \$500,000, so we subtract it again to avoid double counting. The final taxable income is $\$542,500 - \$50,000 = \$492,500$. Final Answer is: B. '\$492,500'

Question 32:

'A practitioner is engaged to express an opinion on management's assertion that the square footage of a warehouse offered for sale is 150,000 square feet. The practitioner should refer to which of the following sources for professional guidance?', A. 'Statements on Auditing Standards', B. 'Statements on Standards for Attestation Engagements', C. 'Statements on Standards for Accounting and Review Services', D. 'Statements on Standards for Consulting Services'

=====

Answer Option 1:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 2:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 3:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 4:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 5:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 6:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 7:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 8:

B. 'Statements on Standards for Attestation Engagements'

Answer Option 9:

B. 'Statements on Standards for Attestation Engagements'

Question 33:

'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:

Segment (in thousands) A B C Total Reported revenue \$ 42 \$ 121 \$ 14 \$ 177 Reported profit(loss) \$ 12 \$ 65 \$ (3) \$ 74 Assets \$ 470 \$ 800 \$ 80 \$ 1350 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.'

=====

Answer Option 1:

According to the 10 percent significance test, an operating segment of a public entity must be separately reported if:

- 1) Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments.
- 2) The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (1) the combined reported profit of all operating segments that did not report a loss and (2) the combined reported loss of all operating segments that reported a loss.
- 3) Its assets are 10 percent or more of the combined assets of all operating segments.

Applying these rules, we can see that:

Segment A:

- Revenue = $\$42k / \$177k = 23.7\% > 10\%$

- Profit = $\$12k / \$74k = 16.2\% > 10\%$

- Assets = $\$470k / \$1350k = 34.8\% > 10\%$

=> Segment A is required to be reported separately.

Segment B:

- Revenue = $\$121k / \$177k = 68.4\% > 10\%$

- Profit = $\$65k / \$74k = 87.8\% > 10\%$

- Assets = $\$800k / \$1350k = 59.3\% > 10\%$

=> Segment B is required to be reported separately.

Segment C:

- Revenue = $\$14k / \$177k = 7.9\% < 10\%$

- Loss = $\$3k / \$74k = 4.05\% < 10\%$

- Assets = $\$80k / \$1350k = 5.9\% < 10\%$

=> Segment C is not required to be reported separately.

Hence, only Segments A and B are required to be separately disclosed. Final Answer: A. 'A and B only.'

Answer Option 2:

According to the revenue test, a segment must be reported if its revenue (including both sales to external customers and intersegment sales or transfers) is 10% or more of the combined revenue, internal and external, of all reported operating segments.

Here are the percentages for each:

A: $42/177 = 23.72\%$ which is more than 10%

B: $121/177 = 68.36\%$ which is more than 10%

C: $14/177 = 7.91\%$ which is less than 10%

So, segments A and B surpass the 10% threshold and thus must be reported separately.

Final Answer: A

Answer Option 3:

According to the criteria for determining reportable segments, a segment is reportable if any of the following thresholds are exceeded:

- The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of the combined reported profit of all operating segments that did not report a loss and the combined reported loss of all operating segments that reported a loss.
- Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments.
- Its assets are 10 percent or more of the combined assets of all operating segments.

For segment A:

- Revenue = $\$42,000$ which is more than 10% of total revenue $\$177,000$ ($\$42,000/\$177,000 = 23.7\% > 10\%$)

- Assets = $\$470,000$ which is more than 10% of total assets $\$1,350,000$ ($\$470,000/\$1,350,000 = 34.8\% > 10\%$)

For segment B:

- Revenue = $\$121,000$ which is more than 10% of total revenue $\$177,000$ ($\$121,000/\$177,000 = 68.4\% > 10\%$)

- Assets = $\$800,000$ which is more than 10% of total assets $\$1,350,000$ ($\$800,000/\$1,350,000 = 59.3\% > 10\%$)

For segment C:

- Revenue = $\$14,000$ which is less than 10% of total revenue $\$177,000$ ($\$14,000/\$177,000 = 7.9\% < 10\%$)

- Assets = \$80,000 which is less than 10% of total assets \$1,350,000 ($\$80,000/\$1,350,000 = 5.9\% < 10\%$)

Therefore, only segments A and B meet the criteria for separate disclosure in Swift's financial statements. Final answer: A. 'A and B only.'

Answer Option 4:

A segment is required to be reported separately if it meets one or more of the following quantitative thresholds:

- Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments.
- The absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount of, the combined reported profit of all operating segments that did not report a loss, or the combined reported loss of all operating segments that reported a loss.
- Its assets are 10 percent or more of the combined assets of all operating segments.

For Swift Co., the total reported revenue is \$177k, the total reported profit is \$74k and total assets are \$1350k.

Segment A: Reported revenue is \$42k which is more than 10% of total (\$177k). Its profit, \$12k, is more than 10% of total profit (\$74k). Its assets, \$470k, are more than 10% of total assets (\$1350k).

Therefore, it should be disclosed separately.

Segment B: Reported revenue is \$121k which is more than 10% of total (\$177k). Its profit, \$65k, is more than 10% of total profit (\$74k). Its assets, \$800k, are more than 10% of total assets (\$1350k).

Therefore, it should be disclosed separately.

Segment C: Reported revenue is \$14k which is less than 10% of total (\$177k). Its loss, \$3k, is less than 10% of total loss (\$74k). Its assets, \$80k, are less than 10% of total assets (\$1350k). Therefore, it should not be disclosed separately.

Therefore, the segments required to be separately disclosed in its December 31 year 2 financial statements are A and B only.

Final Answer: A. 'A and B only.'

Answer Option 5:

To determine which segments need to be separately disclosed, we need to apply the 10 percent significance test. A segment should be reported separately if it constitutes 10 percent or more of the total revenue, total assets, or total profits or losses.

Segment A:

- Reported revenue: $42/177 = 0.237 \Rightarrow 23.7\%$,
- Assets: $470/1350 = 0.348 \Rightarrow 34.8\%$,
- Profit: $12/74 = 0.162 \Rightarrow 16.2\%$.

So all three thresholds are more than 10% for Segment A.

Segment B:

- Reported revenue: $121/177 = 0.683 \Rightarrow 68.3\%$,
- Assets: $800/1350 = 0.593 \Rightarrow 59.3\%$,
- Profit: $65/74 = 0.878 \Rightarrow 87.8\%$.

So all three thresholds are more than 10% for Segment B.

Segment C:

- Reported revenue: $14/177 = 0.079 \Rightarrow 7.9\%$,
- Assets: $80/1350 = 0.059 \Rightarrow 5.9\%$,
- Loss: $3/74 = 0.041 \Rightarrow 4.1\%$.

None of the thresholds are more than 10% for Segment C.

So according to the 10 percent significance test, only segments A and B need to be separately disclosed. Final Answer: A.

Answer Option 6:

A segment should be disclosed separately if it meets one of the following criteria:

- Its reported revenue, including sales to external customers and intersegment sales or transfers, is 10 percent or more of the combined revenue, internal and external, of all operating segments.
- Its absolute amount of its reported profit or loss is 10 percent or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
- Its assets are 10 percent or more of the combined assets of all operating segments.

For Swift, the total reported revenue is \$177,000, the combined profit is \$77,000 and the combined assets are \$1,350,000.

Segment A: revenue is not 10% of total, profit is less than 10% of total, assets are more than 10% of total. So, it needs to be disclosed.

Segment B: revenue is more than 10% of total, profit is more than 10% of total, assets are more than 10% of total. So, it needs to be disclosed.

Segment C: revenue is not 10% of total, loss is not 10% of total, assets are not 10% of total. So, it does not need to be disclosed.

So, the segments required to be separately disclosed are A and B only. Hence, the answer is A. 'A and B only.' Final Answer: A

Answer Option 7:

According to the Operating Segments standard (ASC 280) in U.S. GAAP, an operating segment must be disclosed separately when:

- Its reported revenue (including both sales to external customers and intersegment sales or transfers) is 10 percent or more of the combined revenue of all operating segments.
- Its reported profit or loss is 10 percent or more of the combined reported profit of all operating segments that did not report a loss or the combined reported loss of all operating segments that reported a loss.
- Its assets are 10 percent or more of the combined assets of all operating segments.

Now, let's apply these rules to each segment:

Segment A:

- Revenue is more than 10% of the total ($42/177 = 23.7\%$)
- Profit is more than 10% of the total ($12/74 = 16.2\%$)
- Assets are more than 10% of the total ($470/1350 = 34.8\%$)

Segment B:

- Revenue is more than 10% of the total ($121/177 = 68.4\%$)
- Profit is more than 10% of the total ($65/74 = 87.8\%$)
- Assets are more than 10% of the total ($800/1350 = 59.3\%$)

Segment C:

- Revenue is not more than 10% of the total ($14/177 = 7.9\%$)
- The loss is not more than 10% of the total ($3/74 = 4\%$)
- Assets are not more than 10% of the total ($80/1350 = 5.9\%$)

Therefore, Swift Co. is required to separately disclose segments A and B only in its December 31 year 2 financial statements. Final Answer: A

Answer Option 8:

A segment is required to be separately disclosed if it meets any one of the following size thresholds:

1. Its reported revenue (from both external customers and intersegment sales or transfers) is 10% or more of the combined revenue from all segments.
2. Its reported profit or loss is 10% or more of the greater (in absolute terms) of the combined reported profit of all segments that did not report a loss, or the combined reported loss of all segments that reported a loss.
3. Its assets are 10% or more of the combined assets of all segments.

For segment A:

- Its reported revenue of \$42 is greater than 10% of the total \$177.
- Its reported profit of \$12 is less than 10% of the total profit from segments that did not report a loss (\$77).
- Its assets of \$470 are greater than 10% of the total \$1350.

So segment A meets the revenue and assets criteria and should be separately disclosed.

For segment B:

- Its reported revenue of \$121 is greater than 10% of the total \$177.
- Its reported profit of \$65 is greater than 10% of the total profit from segments that did not report a loss (\$77).
- Its assets of \$800 are greater than 10% of the total \$1350.

So segment B meets all three criteria and should be separately disclosed.

For segment C:

- Its reported revenue of \$14 is less than 10% of the total \$177.
- Its reported loss of \$3 is less than 10% of the total loss from segments that reported a loss (\$3).
- Its assets of \$80 are less than 10% of the total \$1350.

So segment C does not meet any of the criteria and should not be separately disclosed.

Final answer: A. 'A and B only.'

Answer Option 9:

A segment requires separate disclosure if it meets one of the following three criteria:

1. Its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments.
2. Its absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss.
3. Its assets are 10% or more of the combined assets of all operating segments.

Let's apply these criteria to each segment:

Segment A:

- Its reported revenue (\$42k) is more than 10% of the total reported revenue (\$177k).
- Its reported profit (\$12k) is more than 10% of the combined reported profit (\$74k).
- Its assets (\$470k) are more than 10% of the total assets (\$1350k).

Therefore, segment A meets all three criteria.

Segment B:

- Its reported revenue (\$121k) is more than 10% of the total reported revenue (\$177k).
- Its reported profit (\$65k) is more than 10% of the combined reported profit (\$74k).
- Its assets (\$800k) are more than 10% of the total assets (\$1350k).

Therefore, segment B also meets all three criteria.

Segment C:

- Its reported revenue (\$14k) is less than 10% of the total reported revenue (\$177k).
- Its reported loss (\$3k) is less than 10% of the combined reported profit (\$74k).
- Its assets (\$80k) are less than 10% of the total assets (\$1350k).

Therefore, segment C does not meet any of the criteria.

Thus, only segments A and B require separate disclosure. Final Answer: A

Question 34:

'When there has been a change in accounting principles, but the effect of the change on the comparability of the financial statements is not material, the auditor should', A. 'Not refer to the change in the auditor's report.', B. 'Refer to the note in the financial statements that discusses the change.', C. 'Refer to the change in an emphasis-of-matter paragraph.', D. 'Explicitly state whether the change conforms with GAAP.'

=====

Answer Option 1:

A. 'Not refer to the change in the auditor's report.'

Answer Option 2:

A. 'Not refer to the change in the auditor's report.'

Answer Option 3:

A. 'Not refer to the change in the auditor's report.'

Answer Option 4:

A. 'Not refer to the change in the auditor's report.'

Answer Option 5:

A. 'Not refer to the change in the auditor's report.'

Answer Option 6:

A. 'Not refer to the change in the auditor's report.'

Answer Option 7:

A. 'Not refer to the change in the auditor's report.'

Answer Option 8:

A. 'Not refer to the change in the auditor's report.'

Answer Option 9:

A. 'Not refer to the change in the auditor's report.'

Question 35:

'Long was a purchasing agent for Frost, a sole proprietor. Long had express authority to place purchase orders with Frost's suppliers. Long conducted business on the Internet and had little contact with Frost. After Frost was declared incompetent in a judicial proceeding, Long placed an order with Grant Corp. on Frost's behalf. Both Long and Grant were unaware of Frost's incompetence. Will Frost or Frost's legal representative be liable to Grant?', A. 'Yes, because Long's agency survived Frost's incompetence.', B. 'Yes, because the order was valid regardless of Frost's incompetence.', C. 'No, because Grant dealt only with Long.', D. 'No, because Long did not have authority to enter into the contract.'

=====

Answer Option 1:

C. 'No, because Grant dealt only with Long.'

=====

Answer Option 2:

C. 'No, because Grant dealt only with Long.'

=====

Answer Option 3:

B. 'Yes, because the order was valid regardless of Frost's incompetence.'

=====

Answer Option 4:

B. 'Yes, because the order was valid regardless of Frost's incompetence.'

=====

Answer Option 5:

B. 'Yes, because the order was valid regardless of Frost's incompetence.'

=====

Answer Option 6:

B. 'Yes, because the order was valid regardless of Frost's incompetence.'

=====

Answer Option 7:

D. 'No, because Long did not have authority to enter into the contract.'

=====

Answer Option 8:

D. 'No, because Long did not have authority to enter into the contract.'

=====

Answer Option 9:

B. 'Yes, because the order was valid regardless of Frost's incompetence.'

=====

Question 36:

'Which of the following factors should an external auditor obtain updated information about when assessing an internal auditor's competence?', A. 'The reporting status of the internal auditor within the organization.', B. 'The educational level and professional experiences of the internal auditor.', C. 'Whether policies prohibit the internal auditor from auditing areas where relatives are employed.', D. 'Whether the board of directors, audit committee, or owner-manager oversees employment decisions related to the internal auditor.'

=====

Answer Option 1:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 2:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 3:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 4:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 5:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 6:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 7:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 8:

B. 'The educational level and professional experiences of the internal auditor.'

Answer Option 9:

B. 'The educational level and professional experiences of the internal auditor.'

Question 37:

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

=====

Answer Option 1:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 2:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 3:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 4:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 5:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 6:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 7:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 8:

B. 'Obtain an understanding of the client's internal control activities.'

Answer Option 9:

B. 'Obtain an understanding of the client's internal control activities.'

Question 38:

'Securities A, B and C have an expected return of respectively 7%, 12% and 5%. What is the expected return of an equal weighted portfolio composed of Securities A and C?', A. '10%', B. '8.50%', C. '6%', D. '12%'

=====

Answer Option 1:

An equal weighted portfolio of Securities A and C would have an expected return of the average of the expected returns of Security A and Security C. Therefore, the expected return would be $(7\% + 5\%)/2 = 6\%$. Final answer: C.

=====

Answer Option 2:

For an equal weighted portfolio composed of two securities, the expected return is the average of the expected returns of the individual securities.

The average return for Securities A and C is $(7\% + 5\%) / 2 = 6\%$.

So, the expected return of the portfolio is 6%. Final answer: C.

=====

Answer Option 3:

An equal weighted portfolio means that the investment is distributed equally among the securities. For Securities A and C, the expected return of the portfolio would be the average of the expected returns of A and C.

Therefore, the expected return of the portfolio would be $(7\% + 5\%)/2 = 6\%$. Final Answer: C.

=====

Answer Option 4:

The expected return of an equal weighted portfolio composed of Securities A and C is the average of the expected returns of Securities A and C.

Therefore, the expected return of the portfolio is $(7\% + 5\%) / 2 = 6\%$.

Final answer: C. '6%'

=====

Answer Option 5:

An equal weighted portfolio uses the same proportion of all securities. In this case, the expected return of the portfolio would be the average of the expected returns of securities A and C. So, the expected return of the portfolio would be $(7\% + 5\%)/2 = 6\%$. Final answer: C

=====

Answer Option 6:

An equal weighted portfolio composed of Securities A and C would imply that half the investment is in Security A and the other half is in Security C. The expected return of this portfolio would be the average of the expected returns of Securities A and C.

This would be calculated as follows:

$(7\% + 5\%) / 2 = 6\%$

Therefore, the expected return of an equal weighted portfolio composed of Securities A and C would be 6%.

Final Answer: C. '6%'

=====

Answer Option 7:

The expected return of a portfolio is the weighted average of the expected returns of the individual securities, where the weights are the proportions of the portfolio invested in each security.

In this case, we are told that Securities A and C are equally weighted in the portfolio. This means that we invest 50% in Security A and 50% in Security C.

The expected return of the portfolio is therefore $(0.5 * 7\%) + (0.5 * 5\%) = 3.5\% + 2.5\% = 6\%$.

So, the correct answer is C. '6%'.

=====

Answer Option 8:

For an equally weighted portfolio of two securities, the expected return is the average of the individual returns. So the expected return of a portfolio of securities A and C is $(7\% + 5\%) / 2 = 6\%$. Therefore, the correct answer is C. '6%'.

=====

Answer Option 9:

An equal weighted portfolio means that the same amount of money is invested in each security. In this case, we have two securities A and C. The expected return of an equal weighted portfolio is simply the average of the returns of the individual securities. This is calculated as follows:

$(7\% + 5\%) / 2 = 6\%$

Therefore, the expected return of an equal weighted portfolio composed of Securities A and C is 6%. Final answer: C

=====

Question 39:

'Lei-Feng, Inc.'s \$100 par value preferred stock just paid its \$10 per share annual dividend. The preferred stock has a current market price of \$96 a share. The firm's marginal tax rate (combined federal and state) is 40 percent, and the firm plans to maintain its current capital structure relationship into the future. The component cost of preferred stock to Lei-Feng, Inc. would be closest to .', A. '6 percent', B. '6.25 percent', C. '10 percent', D. '10.4 percent'

=====

Answer Option 1:

The cost of preferred stock is calculated as the dividend divided by the price. Here, the dividend is \$10 and the price is \$96. So, the cost is $\$10/\$96 = 0.104$ or 10.4 percent. The tax rate does not affect the cost of preferred stock. Therefore, the answer is D. '10.4 percent'.

Answer Option 2:

The cost of preferred stock (kp) is calculated by dividing the annual preferred dividend (Dps) by the market price of the preferred stock (Pps). In this case, Dps = \$10, Pps = \$96. Therefore, $kp = Dps / Pps = \$10 / \$96 = 0.104$ or 10.4 percent.

Final answer: D

Answer Option 3:

The component cost of preferred stock is determined by the formula for the dividend yield, which is the annual dividend divided by the market price per share. In this case, the annual dividend is \$10 and the market price is \$96, so the dividend yield is $\$10/\$96 = 0.104167$, or 10.4167%. Since the cost is not affected by the tax rate for preferred stocks, the cost is closest to 10.4 percent. Final answer: D.

Answer Option 4:

The cost of preferred stock (Kps) can be found using the formula: $Kps = D/NP$

where:

D = dividends

NP = net proceeds per share

Here, D = \$10

NP = \$96

Plugging these values into the formula, we get:

$Kps = 10/96 = 0.104167$ or 10.4167%

So, the component cost of preferred stock to Lei-Feng, Inc. would be closest to 10.4 percent.

Final answer: D. '10.4 percent'

Answer Option 5:

The cost of preferred stock (rPS) can be calculated using the formula:

$rPS = D / P_0$

where:

D = dividends paid

P0 = market price of the stock

For Lei-Feng, Inc., D = \$10 and P0 = \$96. Substituting these values into the formula gives:

$rPS = 10 / 96 = 0.104167 \approx 0.104$ or 10.4%

Therefore, the component cost of preferred stock to Lei-Feng, Inc. is closest to 10.4 percent. Final Answer: D

Answer Option 6:

The cost of preferred stock (r_{ps}) is calculated by dividing the dividend per share (DPS) by the market price per share (P0), i.e., $r_{ps} = DPS/P_0$.

In this case, the dividend per share is \$10 and the market price per share is \$96. Therefore, the component cost of preferred stock is $10/96 = 0.10416$ or approximately 10.4 percent.

So, the correct answer is D. '10.4 percent'.

Answer Option 7:

The cost of preferred stock (Kp) is calculated as the dividend (DPS) divided by the current market price (P0). In this case, the dividend is \$10 and the current market price is \$96/share. Therefore, the cost of preferred stock would be $Kp = DPS / P_0 = \$10 / \$96 = 0.104$ or 10.4%. The firm's marginal tax rate doesn't affect the cost of preferred stock since preferred dividends are not tax deductible. So, the answer is D. '10.4 percent'.

Answer Option 8:

The cost of preferred stock (Kps) can be calculated using the formula: $Kps = Dps / Pps$ where Dps represents the dividends per share for preferred stock and Pps represents the price per share for preferred stock.

In this case, $Dps = \$10$ and $Pps = \$96$

So, $Kps = 10 / 96 = 0.104167$ which is approximately 0.104 or 10.4 percent.

Therefore, the component cost of preferred stock to Lei-Feng, Inc. would be closest to 10.4 percent. Final answer: D.

Answer Option 9:

The cost of preferred stock (Kps) can be calculated using the formula:

$$Kps = Dps / Pnet$$

Where:

Dps = Dividends per share of preferred stock = \$10

$Pnet$ = Net issuing price = Current market price = \$96

Substituting the given values in the formula:

$$Kps = 10 / 96 = 0.104 = 10.4\%$$

Thus, the component cost of preferred stock to Lei-Feng, Inc. would be closest to 10.4 percent. Final Answer: D

Question 40:

'In the current year Poplar City paid \$5000 interest and \$20000 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? General fund Debt service fund Permanent fund', A. '\$25000 \$25000 \$0', B. '\$0 \$25000 \$20000', C. '\$25000 \$5000 \$0', D. '\$0 \$25000 \$0'

=====

Answer Option 1:

The city should report the expenditures in the Debt service fund, because the payment was made from this fund. The general fund provided the cash, but it was just a transfer, not an expenditure from that fund. Permanent fund is not involved in this process. Therefore, the city should report '\$0 \$25000 \$0'. Final answer: D

Answer Option 2:

The city should report the expenditures as such: \$0 in the general fund because the money was transferred out of it before the payment was made, \$25000 in the debt service fund because this is where the payment was made from, and \$0 in the permanent fund because it was not involved in this transaction. Therefore, the correct answer is '\$0 \$25000 \$0'. Final answer: D

Answer Option 3:

The city should report the expenditures in the Debt service fund because that is where the payment was made from. The general fund transferred the cash, but the actual expenditure happened in the debt service fund. Therefore, the city should not report any expenditure in the general fund. The permanent fund is typically meant for the principal amount of the debt, not for interest or principal repayments.

Hence, no expenditure should be reported in the permanent fund in this case. Therefore, the correct answer is D. '\$0 \$25000 \$0'

Answer Option 4:

The total payment made by the city is the sum of the interest and the principal, which is \$25000. This payment was made from the debt service fund, using cash transferred from the general fund. Hence, the general fund did not directly pay for any of the expenses, but it was the source of the cash used in the debt service fund. Therefore, the city should report the expenditures as '\$0 \$25000 \$0'. Final Answer: D

Answer Option 5:

Since Poplar city used cash transferred from the general fund in the same year to make the payment, it means that the expense should be reported under the debt service fund. Thus, the \$25,000 (\$5,000 in interest + \$20,000 in principal) are all reported under the debt service fund, and the other funds (general fund and permanent fund) should report \$0. So, the correct answer is \$boxed('\$0 \$25000 \$0')\$. Final answer: D.

Answer Option 6:

The amount paid for the interest and principal of the bonds should be reported under the debt service fund. This is because the purpose of the debt service fund is specifically to account for the repayment of debt. The general fund is typically used for day-to-day operations of the city, not for debt repayment. Thus, the city should report \$0 in the general fund, \$25000 in the debt service fund (which is the sum of \$5000 interest and \$20000 principal), and \$0 in the permanent fund. Final answer: D. '\$0 \$25000 \$0'

Answer Option 7:

The total payment made from the debt service fund is \$5000 (interest) + \$20000 (principal) = \$25000. This amount was transferred from the general fund. Therefore, the expenditure should be reported as \$0 from the general fund (because the money was transferred out, not spent), and \$25000 from the debt service fund (because this is where the payment was made from). The permanent fund was not involved in this transaction, so it should be reported as \$0. The correct reporting would be '\$0 \$25000 \$0'.

Final Answer: D.

Answer Option 8:

The payment for both the interest and the principal on the bonds was made from the debt service fund, which were funds transferred from the general fund. Hence, the city should report the expenditure of \$25000 entirely in the Debt service fund. This means the General fund and Permanent fund expenditure is \$0. Therefore, the correct answer is: D. '\$0 \$25000 \$0'.

Answer Option 9:

The total expenditure made by the city is \$5000 (interest) + \$20000 (principal) = \$25000. Since the payment was made from a debt service fund using cash transferred from the general fund, this should be reported as an expenditure in the debt service fund but not in the general fund. The Permanent fund is not involved in this transaction. So, the city should report the expenditures as '\$0 \$25000 \$0'. Final answer: D

Question 41:

'A company exchanged land with an appraised value of \$50,000 and an original cost of \$20,000 for machinery with a fair value of \$55,000. Assuming that the transaction has commercial substance, what is the gain on the exchange?', A. '\$0', B. '\$5,000', C. '\$30,000', D. '\$35,000'

=====

Answer Option 1:

When a transaction has commercial substance, the gain or loss is recognized immediately. The gain on the exchange is calculated as the difference between the fair value of the machinery received and the original cost of the land. So, the gain is $\$55,000 - \$20,000 = \$35,000$. Final Answer: D

Answer Option 2:

In transactions with commercial substance, gains and losses are recognized immediately. The gain on the exchange would be the fair value of the machinery received minus the carrying amount of the land given up. The carrying amount of the land is its original cost, as no information is given about its accumulated depreciation. Thus, the gain on the exchange is $\$55,000 - \$20,000 = \$35,000$. Final Answer: D

Answer Option 3:

When a transaction has commercial substance, the gain or loss should be recognized immediately. The gain on the exchange is calculated as the fair value of the asset given up minus its book value. In this case, the book value of the land (original cost) is \$20,000. The fair value of the machinery received is \$55,000. The gain on the exchange is therefore $\$55,000 - \$20,000 = \$35,000$. Final answer: D. \$35,000.

Answer Option 4:

In exchanges with commercial substance, gains and losses are fully recognized. The gain on the exchange is the difference between the fair value of the machinery received (\$55,000) and the carrying amount of the land given up (\$50,000). So the gain on the exchange is $\$55,000 - \$50,000 = \$5,000$. Final answer: B.

Answer Option 5:

In a transaction that has commercial substance, gains and losses are recognized immediately. The gain is calculated as the difference between the fair value of what is given up and its carrying amount (original cost). In this case, the machinery's fair value of \$55,000 is irrelevant to the calculation of the gain. The gain on the exchange for the company is \$50,000 (appraised value of the land) minus \$20,000 (original cost of the land) which equals \$30,000. So, the answer is C. '\$30,000'.

Answer Option 6:

In a transaction with commercial substance, the gain is recognized based on the fair value of what is given up or received. In this case, the machinery the company received has a fair value of \$55,000, and the land given up has a book value (original cost) of \$20,000. Thus, the gain on the exchange would be $\$55,000 - \$20,000 = \$35,000$. So, the correct answer is D. '\$35,000'.

Answer Option 7:

When an exchange has commercial substance, the gain or loss is recognized immediately. The gain on the exchange is the difference between the fair value of the asset received and the book value of the asset given up. The book value of the land is its original cost, which is \$20,000. The fair value of the machinery received is \$55,000. So, the gain on the exchange is $\$55,000 - \$20,000 = \$35,000$. Final

Answer: D

Answer Option 8:

In a transaction with commercial substance, gains and losses are recognized immediately. The gain on the exchange is calculated as the fair value of the asset given up minus its original cost. The fair value of the land given up is \$50,000 and the original cost is \$20,000, so the gain on the exchange is $\$50,000 - \$20,000 = \$30,000$. The answer is C. '\$30,000'.

Answer Option 9:

For an exchange with commercial substance, the gain is calculated based on the fair value of the asset received and the book value of the asset given up. The book value of the land is its original cost, which is \$20,000. The fair value of the machinery received is \$55,000. Therefore, the gain on the exchange is $\$55,000 - \$20,000 = \$35,000$. Final Answer: D. '\$35,000'

Question 42:

'An investment project cost \$1 million to undertake and will deliver \$2 million in five years' time. The discount rate is 10%. What is the project's NPV?', A. '\$1,000,000', B. '\$300,000', C. '\$2,000,000', D. '\$242,000'

=====

Answer Option 1:

The Net Present Value (NPV) is calculated as the present value of the investment returns minus the initial investment. The present value of the returns can be calculated using the discount rate of 10% over 5 years.

So, the present value of the \$2 million returns is $\$2,000,000 / (1 + 0.10)^5$ = approximately \$1,242,000.

Subtracting the initial investment of \$1,000,000 gives an NPV of $\$1,242,000 - \$1,000,000 = \$242,000$.

Final Answer: D

=====

Answer Option 2:

The net present value (NPV) of a project is calculated by subtracting the initial cost of the investment from the present value of the future cash inflows that the investment is expected to produce.

The equation to calculate NPV is: $NPV = PV - C$, where PV is the present value of future cash inflows and C is the cost of investment.

The present value (PV) of \$2 million to be received in five years discounted at 10% is calculated as follows:

$PV = \$2,000,000 / (1 + 0.10)^5 = \$200,0000 / 1.61051 = \$1,242,000$ (approximately)

Therefore, the NPV of the project is $NPV = PV - C = \$1,242,000 - \$1,000,000 = \$242,000$.

So, the correct answer is D. '\$242,000'

=====

Answer Option 3:

The net present value (NPV) is calculated as the present value of the cash inflows minus the present value of the cash outflows.

The present value of the cash inflow of \$2 million in five years' time, discounted at a rate of 10% per annum, is $\$2,000,000 / (1 + 0.10)^5 = \$1,242,000$ approximately.

The present value of the cash outflow (the cost of the project) is the amount of the investment, which is \$1,000,000.

Hence the NPV is $\$1,242,000 - \$1,000,000 = \$242,000$.

Final answer: D

=====

Answer Option 4:

The NPV (Net Present Value) of a project is the present value of its benefits minus the present value of its costs.

The present value of the benefit (\$2 million in five years' time) can be calculated using the formula for Present Value (PV):

$PV = FV / (1 + r)^n$

where:

FV = Future Value = \$2 million,

r = discount rate = 10% = 0.10,

n = number of periods = 5 years.

So, $PV = \$2,000,000 / (1 + 0.10)^5 = \$1,242,000$ (approximately).

Therefore, the NPV of the project is the present value of its benefits (\$1,242,000) minus the present value of its costs (\$1 million) = $\$1,242,000 - \$1,000,000 = \$242,000$.

So, the project's NPV is \$242,000.

Final Answer: D

=====

Answer Option 5:

The Net Present Value (NPV) of an investment project is calculated by subtracting the initial outlay from the present value of the future cash flows.

The present value (PV) of the future cash flow can be calculated using the formula:

$PV = \text{Future Value} / (1 + r)^n$

where:

- Future Value is the amount of money that the investment will deliver in the future. Here, it's \$2,000,000.

- r is the discount rate. Here, it's 10% or 0.10.

- n is the number of periods. In this case, it's 5 years.

So,

$PV = \$2,000,000 / (1 + 0.10)^5$

= $\$2,000,000 / 1.61$

= \$1,242,000

The NPV is then calculated as follows:

$NPV = PV - \text{Initial Outlay}$

$$= \$1,242,000 - \$1,000,000$$

$$= \$242,000$$

So, the NPV of the project is \$242,000. The final answer is D.

Answer Option 6:

The formula for NPV (Net Present Value) is as follows:

$$NPV = \sum [Cash\ inflow\ at\ t / (1+r)^t] - Initial\ Investment$$

where:

- \sum is the sum of the cash flow

- Cash inflow at t is the cash inflow during the period t

- r is the discount rate

- t is the time period

In this case, the cash inflow at t (in five years' time) is \$2,000,000. The discount rate (r) is 10% or 0.1, the time period (t) is 5 years, and the initial investment is \$1,000,000.

Using the formula, the NPV becomes:

$$NPV = [2,000,000 / (1+0.1)^5] - 1,000,000, \text{ which equals approximately } \$242,000.$$

Final answer: D

Answer Option 7:

The Net Present Value (NPV) of a project is calculated by subtracting the present value of its costs from the present value of its benefits.

In this case, the initial cost is \$1 million, and the future benefit is \$2 million in five years.

We use the discount rate to find the present value of the future benefit. The formula for present value is $PV = FV / (1+r)^n$ where FV is future value, r is discount rate, and n is the number of years.

So the present value of the \$2 million to be received in five years, using a discount rate of 10%, is $2,000,000 / (1+0.10)^5 = \$1,242,000$ approximately.

The NPV of the project is thus $NPV = Benefits - Costs = \$1,242,000 - \$1,000,000 = \$242,000$.

Final answer: D. '\$242,000'

Answer Option 8:

The Net Present Value (NPV) is calculated by subtracting the initial cost of the project from the present value of its future cash inflows.

The present value (PV) of the future cash inflow can be calculated using the formula: $PV = FV / (1+r)^n$, where FV is the future value, r is the discount rate, and n is the number of periods.

In this case, the FV is \$2 million, r is 10% (or 0.10), and n is 5 years.

So, $PV = \$2,000,000 / (1 + 0.10)^5 = \$2,000,000 / 1.61051 = \text{approximately } \$1,242,000$

The NPV is then $NPV = PV - \text{initial cost} = \$1,242,000 - \$1,000,000 = \$242,000$.

Therefore, the project's NPV is \$242,000. Final Answer: D.

Answer Option 9:

The Net Present Value (NPV) of an investment project is calculated as the present value of its cash inflows minus the present value of its cash outflows. In this case, the cash outflow is \$1 million, which is the initial cost of the project and is already in present value terms. The cash inflow is \$2 million in five years' time. To calculate the present value of this inflow, we need to discount it back to today using the discount rate of 10%.

The formula for calculating the present value (PV) is: $PV = FV / (1 + r)^n$, where FV is the future value, r is the discount rate, and n is the number of periods.

Substituting the given values into the formula gives: $PV = \$2,000,000 / (1 + 0.10)^5 = \$1,242,000$.

The NPV of the project is therefore: $NPV = \$1,242,000 - \$1,000,000 = \$242,000$. Final Answer: D

Question 43:

'Brown cosigned Royal's \$50000 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.'

=====

Answer Option 1:

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

Answer Option 2:

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

Answer Option 3:

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

Answer Option 4:

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

Answer Option 5:

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

Answer Option 6:

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

Answer Option 7:

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

Answer Option 8:

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

Answer Option 9:

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

Question 44:

'On January 1, a company enters into an operating lease for office space and receives control of the property to make leasehold improvements. The company begins alterations to the property on March 1 and the company's staff moves into the property on May 1. The monthly rental payments begin on July 1. The recognition of rental expense for the new offices should begin in which of the following months?',
A. 'January.', B. 'March.', C. 'May.', D. 'July.'

=====

Answer Option 1:

D. 'July.'

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Answer Option 2:

D. 'July.'

=====

Answer Option 3:

D. 'July.'

=====

Answer Option 4:

D. 'July.'

=====

Answer Option 5:

D. 'July.'

=====

Answer Option 6:

D. 'July.'

=====

Answer Option 7:

D. 'July.'

=====

Answer Option 8:

D. 'July.'

=====

Answer Option 9:

The recognition of rental expense for the new offices should begin when the company's staff moves into the property. So, the rental expense should start to be recognized in May. Final answer: C.

=====

Question 45:

'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.'

=====

Answer Option 1:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 2:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 3:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 4:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 5:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 6:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 7:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 8:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Answer Option 9:

A. 'There are unusual discrepancies between the entity's records and confirmation replies.'

Question 46:

'A taxpayer purchases and is the owner of an insurance contract on his own life and designates his two children as equal beneficiaries. The taxpayer makes all premium payments. How many gifts of property, if any, have been made for gift tax purposes?', A. 'Zero.', B. 'One.', C. 'Two.', D. 'Three.'

=====

Answer Option 1:

A. 'Zero.'

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Answer Option 2:

A. 'Zero.'

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Answer Option 3:

A. 'Zero.'

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Answer Option 4:

A. 'Zero.'

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Answer Option 5:

A. 'Zero.'

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Answer Option 6:

A. 'Zero.'

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Answer Option 7:

A. 'Zero.'

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Answer Option 8:

A. 'Zero.'

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Answer Option 9:

A. 'Zero.'

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Question 47:

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.'

=====

Answer Option 1:

C. 'Enterprise.'

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Answer Option 2:

C. 'Enterprise.'

=====

Answer Option 3:

C. 'Enterprise.'

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Answer Option 4:

C. 'Enterprise.'

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Answer Option 5:

C. 'Enterprise.'

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Answer Option 6:

C. 'Enterprise.'

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Answer Option 7:

C. 'Enterprise.'

=====

Answer Option 8:

C. 'Enterprise.'

=====

Answer Option 9:

C. 'Enterprise.'

=====

Question 48:

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'

=====

Answer Option 1:

A. '\$0'

=====

Answer Option 2:

Under the Taxpayer Relief Act of 1997, if the home was the primary residence for at least two of the last five years, up to \$250,000 of profit is exempt from taxes for a single taxpayer. Decker falls under this condition, so the profit from the sale of his house (\$500,000 - \$200,000 = \$300,000) is exempt up to \$250,000. However, his profit does exceed this limit by \$50,000 (\$300,000 - \$250,000). So, Decker should recognize a gain of \$50,000. Final answer: B.

=====

Answer Option 3:

The gain from the sale of a principal residence can be excluded from income up to \$250,000 for single individuals. In this case, Decker sold the house for \$500,000 and his cost basis was \$200,000, so his gain would be \$500,000 - \$200,000 = \$300,000. However, since the gain is above the \$250,000 exclusion, Decker would only need to recognize the amount above this exclusion, which is \$300,000 - \$250,000 = \$50,000. Therefore, Decker should recognize a gain of \$50,000 from the sale of the residence. Final Answer: B.

=====

Answer Option 4:

Under the Section 121 exclusion, single taxpayers can exclude up to \$250,000 (\$500,000 for married taxpayers filing jointly) of gain on the sale of a principal residence if they have owned and used it as a principal residence for at least 2 out of the 5 years before the sale.

Decker qualifies for the exclusion as he has lived in the house for 15 years. His gain from the sale is \$500,000 (selling price) minus \$200,000 (cost basis), which equals \$300,000. But since this amount is over the \$250,000 exclusion limit, Decker will only have to recognize \$50,000 of the gain.

Answer: B. '\$50,000'.

=====

Answer Option 5:

Under Section 121 of the IRS tax code, an individual can exclude up to \$250,000 in profit from the sale of a principal residence if the homeowner lived in the house for at least two of the past five years. This means Decker can exclude up to \$250,000 of gain from the sale of his house. The gain on the sale of the house is the selling price less the cost basis, or \$500,000 - \$200,000 = \$300,000. Since this gain is more than the \$250,000 that Decker can exclude, Decker will have to recognize the difference, which is \$300,000 - \$250,000 = \$50,000. Final answer: B. '\$50,000'.

=====

Answer Option 6:

A. '\$0'

This situation falls under the "Section 121 Exclusion" of the IRS tax code. This code allows for an individual to exclude up to \$250,000 (\$500,000 for married couples) in capital gains on the sale of their primary residence, as long as they have lived in the home for at least two out of the last five years. In this case, Decker sold his home for a gain of \$300,000 (\$500,000 selling price - \$200,000 cost basis).

However, because he meets the requirements for the exclusion and the gain is less than \$250,000, he would not have to recognize any gain from the sale of the residence.

=====

Answer Option 7:

For the sale of a principal residence, the Internal Revenue Service (IRS) allows an exclusion of up to \$250,000 on the capital gain for an individual (or \$500,000 for a married couple filing jointly) if the taxpayer owned and lived in the property as their primary residence for at least two of the last five years before the sale. In this case, Decker sold his principal residence for \$500,000 and his cost basis in the property was \$200,000. That means his capital gain from the sale was \$500,000 - \$200,000 = \$300,000. However, because he's eligible for the exclusion, he does not need to recognize any of this gain.

Decker's purchase of a new house has no impact on the gain from the sale of his old house. So, the amount of gain Decker should recognize from the sale of the residence should be \$0. Final answer: A.

=====

Answer Option 8:

Under Section 121 of the Internal Revenue Code, an individual can exclude up to \$250,000 (\$500,000 for married couples filing jointly) of gain realized on the sale of a principal residence. To qualify for the exclusion, the individual must have owned and used the residence as a principal residence for at least 2 years during the 5-year period ending on the date of the sale.

In this case, Decker, a single individual, sold his principal residence for \$500,000 and had a cost basis of \$200,000 in the house. This means he realized a gain of \$500,000 - \$200,000 = \$300,000. However, as he meets the criteria for the exclusion (he has owned and used the house as his principal residence for more than 2 years), he can exclude up to \$250,000 of this gain from his taxable income.

Therefore, the amount of gain Decker should recognize from the sale of the residence is \$300,000 - \$250,000 = \$50,000. Final Answer: B. '\$50,000'

=====

Answer Option 9:

A. '\$0'

=====

Question 49:

'To which of the following rights is a holder of a public corporation's cumulative preferred stock always entitled?', A. 'Conversion of the preferred stock into common stock.', B. 'Voting rights.', C. 'Dividend carryovers from years in which dividends were not paid.', D. 'Guaranteed dividends.'

=====

Answer Option 1:

C. 'Dividend carryovers from years in which dividends were not paid.'

Answer Option 2:

C. 'Dividend carryovers from years in which dividends were not paid.'

Answer Option 3:

C. 'Dividend carryovers from years in which dividends were not paid.'

Answer Option 4:

The holder of a public corporation's cumulative preferred stock is always entitled to "Dividend carryovers from years in which dividends were not paid." Final Answer: C

Answer Option 5:

The holder of cumulative preferred stock of a public corporation is always entitled to C. 'Dividend carryovers from years in which dividends were not paid.' Final answer: C

Answer Option 6:

The unique feature of cumulative preferred stock is that if dividends are not paid in a given year, they are carried over to future years. So, cumulative preferred stockholders are always entitled to C. 'Dividend carryovers from years in which dividends were not paid.' Final Answer: C

Answer Option 7:

The holder of a public corporation's cumulative preferred stock is always entitled to C. 'Dividend carryovers from years in which dividends were not paid.' When a company has cumulative preferred stock outstanding, unpaid dividends (known as dividends in arrears) accumulate and must be paid out before any dividends on common shares can be paid. Final Answer: C

Answer Option 8:

The holder of a public corporation's cumulative preferred stock is always entitled to C. 'Dividend carryovers from years in which dividends were not paid.' This is because 'cumulative' refers to the right of the shareholder to accumulate dividend arrears if the company doesn't declare dividends for any period. Final Answer: C

Answer Option 9:

Cumulative preferred stocks have the characteristic that if the company chooses not to pay dividends in one year, those unpaid dividends—called "dividends in arrears"—accumulate and must be paid out to preferred shareholders before common shareholders can receive any dividends. Thus, a holder of a public corporation's cumulative preferred stock is always entitled to C. 'Dividend carryovers from years in which dividends were not paid.' Final answer: C.

Question 50:

'According to the SEC, members of an issuer's audit committee may not', A. 'Establish procedures for employees to anonymously report fraud.', B. 'Be responsible for the compensation of any registered public accounting firm employed by the registrant to provide an audit report.', C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.', D. 'Engage independent counsel as deemed necessary to carry out their duties.'

=====

Answer Option 1:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 2:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 3:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 4:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 5:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 6:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 7:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 8:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'

Answer Option 9:

C. 'Accept any consulting, advisory, or other compensatory fee from the registrant for services other than as a member of the board.'
