Question #1 of 155

Question ID: 1457361

Royster Company presents the following income statement:

Sales	$12,000
Cost of goods sold	$6,000
Selling and administrative expense	$1,200
Interest expense	$600
Pretax income	$4,200
Income tax expense	$1,470
Net income	$2,730

Which of the following line items would appear on a common-size income statement for this period?

A) Pretax income 35%.

B) Income tax expense 54%.

C) Net income 65%.

Question #2 of 155

Question ID: 1457339

Antidilutive securities should be assumed to have been converted to common shares when calculating:

A) basic EPS but not diluted EPS.

B) diluted EPS but not basic EPS.

C) neither basic nor diluted EPS.

Question #3 of 155

Question ID: 1457296

At the beginning of the year, BJC Company had 40,000 shares of $1 par common stock outstanding. On April 1, BJC issued a 2-for-1 stock split and on July 1, BJC reacquired 20,000 shares. On October 1, BJC issued 8,000 shares of $10 par, 5% cumulative preferred stock. How many shares should BJC use to calculate diluted earnings per share?

A) 60,000.

B) 62,000.

C) 70,000.

Question #4 of 155

Question ID: 1457262

The following data pertains to the McGuire Company:

- Net income equals $15,000.
- 5,000 shares of common stock issued on January 1.
- 10% stock dividend issued on June 1.
- 1000 shares of common stock were repurchased on July 1.
- 1000 shares of 10%, par $100 preferred stock each convertible into 8 shares of common were outstanding the whole year.

What is the company's basic earnings per share (EPS)?

A) $2.50.

B) $1.20.

C) $1.00.

Question #5 of 155

Question ID: 1457303

Firewalz, Inc., had 500,000 shares of common stock and 20,000 shares of 6%, $100 par preferred stock outstanding at the beginning of the year. Each share of the preferred can be converted into two shares of common stock. On July 1, the company repurchased 100,000 shares of its common stock. If net income for the year is $1.2 million, the reported diluted EPS for the year is *closest* to:

A) $2.42.

B) $2.45.

C) $2.40.

Question #6 of 155

Question ID: 1457221

During 2007, Topeka Corporation entered into the following transactions:

> Transaction #1 – Interest on a certificate of deposit owned by Topeka was credited to Topeka's investment account.
>
> Transaction #2 – Topeka sold 10,000 shares of common stock at $30 that had been repurchased by Topeka last year for $20.

Should Topeka recognize the results of these transactions as income on the income statement for the year ended December 31, 2007?

A) Both should be recognized.

B) Neither should be recognized.

C) Only one should be recognized.

Question #7 of 155

Question ID: 1457364

An analyst prepares the following common-size income statements for Perez Company:

	20X1	20X2	20X3
Sales	100%	100%	100%
Cost of goods sold	50%	52%	53%
Selling and administrative expense	16%	12%	9%
Interest income	4%	4%	4%
Pretax income	30%	32%	34%
Income tax expense	15%	16%	17%
Net income	15%	16%	17%

Based only on this information, Perez's improving net profit margin is *most likely* a result of:

A) greater financial leverage.

B) controlling operating expenses.

C) improving gross margins.

Question #8 of 155

Question ID: 1457240

Changes in asset lives and salvage values are changes in accounting:

A) principle and are applied retrospectively.

B) estimates and are applied retrospectively.

C) estimates and are applied prospectively.

Question #9 of 155

Question ID: 1457306

Stanley Corp. had 100,000 shares of common stock outstanding throughout 2004. It also had 20,000 stock options with an exercise price of $20 and another 20,000 options with an exercise price of $28. The average market price for the company's stock was $25 throughout the year. The stock closed at $30 on December 31, 2004. What are the number of shares used to calculate diluted earnings per share for the year?

A) 110,000.

B) 104,000.

C) 105,000.

Question #10 of 155

Question ID: 1457323

Zachary Company's warrants issued in 2000 are Zachary's only outstanding potentially dilutive security. In 2005, EPS and Dilutive EPS differed for the first time. A possible explanation for the change is the:

A) average market price of Zachary decreased.

B) average market price of Zachary increased.

C) year-end market price of Zachary increased.

Question #11 of 155

Question ID: 1457366

Matrix, Inc.'s common size income statement for the years ended December 31, 20X1 and 20X2 included the following information (percent of net sales):

	20X1	**20X2**
Sales	100	100
Cost of Goods Sold	(55)	(60)
	45	40
Selling General & Administrative	(5)	(5)
Depreciation	(7)	(8)
	33	27
Interest Expense	(15)	(6)
	18	21
Income Tax Expense	(6)	(7)
	12	14

Analysis of this data indicates that from 20X1 to 20X2:

A) cost of goods sold increased.

B) interest expense per dollar of sales declined.

C) the effective tax rate increased.

Question #12 of 155

Question ID: 1457338

How will dilutive securities affect earnings per share (EPS) when determining diluted earnings per share?

A) Increase EPS.

B) Decrease EPS.

C) Either decrease or increase EPS depending upon if the security is dilutive or antidilutive.

Question #13 of 155

Question ID: 1457225

According to the standards for revenue recognition, a promise to transfer a distinct good or service is *most accurately* described as a:

A) contract.

B) performance obligation.

C) transaction.

Question #14 of 155

Question ID: 1457349

Selected information from Doors, Inc.'s financial activities in the year 2005 included the following:

- Net income was $372,000.
- 100,000 shares of common stock were outstanding on January 1.
- The average market price per share was $18 in 2005.
- Dividends were paid in 2005.
- 2,000, 6 percent $1,000 par value convertible bonds, which are convertible at a ratio of 25 shares for each bond, were outstanding the entire year.
- Doors, Inc.'s tax rate is 40%.

Doors, Inc.'s diluted earnings per share (Diluted EPS) for 2005 was *closest* to:

A) $2.96.

B) $3.28.

C) $3.72.

Question #15 of 155

Question ID: 1457239

Which of the following statements regarding making changes in accounting principles is *least* accurate?

A) The general rule is retrospective application.

B) A change in accounting principle is a change from one generally accepted accounting principle to another generally accepted principle. The firm making the change must justify the change.

C) Changes in accounting estimates are now treated the same as changes in accounting principles.

Question #16 of 155

Question ID: 1457265

An analyst has gathered the following information about a company:

- 110,000 shares of common outstanding at the beginning of the year.
- The company repurchases 20,000 of its own common shares on July 1.
- Net income is $300,000 for the year.
- 10,000 shares of existing 10 percent cumulative $100 par preferred outstanding that is not in arrears at the beginning or ending of the year.
- The company also has $1 million in 10 percent callable bonds outstanding.
- The company has declared a $0.50 dividend on the common.

What is the company's basic Earnings Per Share?

A) $1.00.

B) $2.00.

C) $3.00.

Question #17 of 155

Question ID: 1457312

Assume that the exercise price of an option is $6, and the average market price of the stock is $10. Assuming 802 options are outstanding during the entire year, the number of shares to be added to the denominator of diluted earnings per share (EPS) is *closest* to:

A) 802.

B) 481.

C) 321.

Question #18 of 155

Question ID: 1457278

A firm with a capital structure consisting of only common stock and non-convertible bonds is said to have a:

A) simple capital structure.

B) non-diluted capital structure.

C) straight capital structure.

Question #19 of 155

Question ID: 1457362

To convert an income statement to a vertical common-size income statement, each line item should be stated as a percentage of:

A) pretax income.

B) revenue.

C) net income.

Question #20 of 155

Question ID: 1457244

Pinto Corporation is an automobile manufacturer located in North America. Pinto owns a 5 percent interest in one of its suppliers, Continental Supply Company. Each year, Pinto receives a cash dividend from Continental. Pinto's engine supplier, National Supply Company, recently increased prices on goods sold to all customers due to higher labor costs. Should Pinto report the dividends received from Continental and the price increase from National as an operating or nonoperating component on its year-end income statement?

A) Only one is operating.

B) Both are nonoperating.

C) Both are operating.

Question #21 of 155

Question ID: 1457228

The JME Jumpers, a professional volleyball team, sells season tickets to all home games. The cost of a season ticket is $1,000 and the team plays 20 home games, which run from April through August. For the year ended June 30, 2005, JME sold 1,200 tickets, collected 80 percent of the amount owed, and played 12 home games. How much revenue should JME recognize?

A) $720,000.

B) $960,000.

C) $1,200,000.

Question #22 of 155

Question ID: 1457226

The approach to revenue recognition in the converged accounting standards that were issued in May 2014 is *best* described as:

A) objectives-based.

B) principles-based.

C) rules-based.

Question #23 of 155

Question ID: 1457313

Assume that the exercise price of an option is $9, and the average market price of the stock is $12. Assuming 992 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the Diluted EPS?

A) 248.

B) 744.

C) 992.

Question #24 of 155

Question ID: 1462810

An analyst gathers the following data about a company:

- The company had 1 million shares of common stock outstanding for the entire year.
- The company's beginning stock price was $50, its ending price was $70, and its average price was $60.
- The company had 100,000 warrants outstanding for the entire year. Each warrant allows the holder to buy one share of common stock at $50 per share.

How many shares of common stock should the company use in computing its diluted earnings per share?

A) 1,016,667.

B) 1,083,333.

C) 1,100,000.

Question #25 of 155

Question ID: 1457360

BWT, Inc. shows the following data in its financial statements at the end of the year. Assume all securities were outstanding for the entire year.

- 6.125% convertible bonds, convertible into 33 shares of common stock. Issue price $1,000, 100 bonds outstanding.
- 6.25% convertible preferred stock, $100 par, 2,315 shares outstanding. Convertible into 3.3 shares of common stock, Issue price $100.
- 8% convertible preferred stock, $100 par, 2,572 shares outstanding. Convertible into 5 common shares, Issue price $80.
- 9,986 warrants are outstanding with an exercise price of $38. Each warrant is convertible into 1 share of common. Average market price of common is $52.00 per share.
- Common shares outstanding at the beginning of the year were 40,045.
- Net Income for the period was $200,000, while the tax rate was 40%.

What are the basic and diluted EPS for the year?

	Basic EPS	Diluted EPS
A)	$4.12	$2.95
B)	$3.97	$3.06

C) $4.12 $3.06

Question #26 of 155

Question ID: 1462814

Using the following information for Boxes, Inc.:

- Net income $53,000,000
- Outstanding 7% preferred stock, par value $30,000,000
- Outstanding convertible bonds, face value of $10,000,000, Issued on January 1 at par with a coupon rate of 6% and convertible at the rate of 20 shares per 1,000 of face value
- 100,000 options at 55 outstanding all year
- Tax rate 30%
- 3,000,000 common shares outstanding all year
- Stock price 60 at year-end, average stock price over the year 50.

Diluted EPS is *closest* to:

A) $15.00.

B) $16.00.

C) $17.00.

Question #27 of 155

Question ID: 1457344

Orange Company's net income for 2004 was $7,600,000 with 2,000,000 shares outstanding. The average share price in 2004 was $55. Orange had 10,000 shares of eight percent $1,000 par value convertible preferred stock outstanding since 2003. Each preferred share was convertible into 20 shares of common stock. Orange Company's diluted earnings per share (Diluted EPS) for 2004 is *closest* to:

A) $3.40.

B) $3.45.

C) $3.80.

Question #28 of 155

Question ID: 1457371

Is an acquisition of treasury stock or a loss from the write-down of inventory under the lower-of-cost-or-market rule included in comprehensive income?

	Inventory write-down	Acquisition of treasury stock
A)	No	No
B)	No	Yes
C)	Yes	No

Question #29 of 155

Question ID: 1457259

Washington, Inc.'s stock transactions during the year 20X4 were as follows:

January 1	720,000 shares issued and outstanding
May 1	2 for 1 stock split occurred

What was Washington's weighted average number of shares outstanding during 20X4, for earnings per share (EPS) computation purposes?

A) 1,440,000.

B) 1,500,000.

C) 1,666,667.

Question #30 of 155

Question ID: 1462805

Which costs are *least likely* to be reported as an expense in the current accounting period?

A) Period costs.

B) Loan interest that has not yet been paid.

C) Costs of producing inventory.

Question #31 of 155

Question ID: 1457327

Nichols Company's net income for 20X6 was $978,000 with 1,250,000 shares outstanding. The average share price in 20X6 was $8.50. Nichols issued 2,000 warrants to purchase 100 shares each for $10 per share in 20X5. Nichols Company's diluted earnings per share (diluted EPS) for 20X6 is *closest* to:

A) $0.782.

B) $0.777.

C) $0.793.

Question #32 of 155

Question ID: 1457326

Selected information from Indigo Corp.'s financial activities in the year 20X9 included the following:

- Net income is $5,600,000.
- The tax rate is 40%.
- 500,000 shares of common stock were outstanding on January 1.
- The average market price per share was $82 in 20X9.
- 6,000 5% coupon $1,000 par value convertible bonds, which are convertible at a ratio of 20 shares for each bond, were outstanding the entire year.
- 200,000 shares of common stock were issued on July 1.
- 100,000 shares of common stock were purchased by the company as treasury stock on October 1.

Indigo Corp.'s diluted earnings per share for 20X9 are *closest* to:

A) $8.32.

B) $8.49.

C) $9.74.

Question #33 of 155

Question ID: 1457374

Where in the financial statements should a firm recognize the unrealized gains and losses on cash flow hedging derivatives and the unrealized gains and losses on available-for-sale securities?

	Cash flow hedging derivatives	Available-for-sale securities
A)	Other comprehensive income	Other comprehensive income
B)	Net income	Other comprehensive income
C)	Other comprehensive income	Net income

Question #34 of 155

Question ID: 1457286

Oregon Corp.'s stock transactions during the year were as follows:

- January 1: 320,000 shares outstanding.
- April 1: 1-for-2 reverse stock split occurred.
- July 1: Acquisition of Smith, Inc. in exchange for issuance of 60,000 shares.
- October 1: 30,000 shares issued for cash.

What is Oregon's weighted average number of shares outstanding?

A) 250,000.

B) 167,500.

C) 197,500.

Question #35 of 155

Question ID: 1457350

Based on the following data, how many shares of common stock should be used to calculate diluted earnings per share?

- Net income of $1,500,000, tax retention rate of 60%.
- 1,000,000 shares of common are outstanding at the beginning of the year.
- 10,000, 6% convertible bonds with each bond convertible into 20 shares of common stock were issued at par ($100) on June 30th of this year.
- The firm has 100,000 warrants outstanding all year with an exercise price of $25 per share.
- The average stock price for the period is $20, and the ending stock price is $30.

A) 1,100,000.

B) 1,000,000.

C) 1,266,667.

Question #36 of 155

Question ID: 1457363

Which of the following data are *least likely* to be read directly from a common-size income statement?

A) Effective tax rate.

B) Net profit margin.

C) Ratio of SG&A expense to sales.

Question #37 of 155

Question ID: 1457308

When considering the impact of warrants on earnings per share, the method to calculate the number of shares added to the denominator is derived using which method?

A) Treasury Stock method.

B) Weighted average method.

C) Cost recovery method.

Question #38 of 155

Question ID: 1457242

Retrospective presentation is *least likely* required for a change from:

A) LIFO to average cost inventory valuation.

B) percentage-of-completion to completed contract revenue recognition.

C) zero salvage value to positive salvage value.

Question #39 of 155

Question ID: 1457335

In calculating the numerator for diluted earnings per share, the dividends on convertible preferred stock (if it is dilutive) are:

A) added to earnings available to common shareholders without an adjustment for taxes.

B) added to earnings available to common shareholders with an adjustment for taxes.

C) subtracted from earnings available to common shareholders without an adjustment for taxes.

Question #40 of 155

Question ID: 1457290

During 2004, Covax Corp. reported net income of $2.4 million and 2 million shares of common stock. Covax paid cash dividends of $14,000 to its preferred shareholders and $30,000 to its common shareholders. In 2004, Covax issued 900, $1,000 par, 5.5 percent bonds for $900,000. Each bond is convertible to 50 shares of common stock. Assume the tax rate is 40%. Compute Covax's basic and diluted EPS.

	Basic EPS	Diluted EPS
A)	$1.19	$1.18
B)	$1.19	$1.22
C)	$1.22	$1.22

Question #41 of 155

Question ID: 1457256

Last year, the AKB Company had net income equal to $5 million. Combined state and local taxes were 45%. The firm paid $1 million to holders of its 1 million common shares and $250,000 to 100,000 preferred shareholders. What was AKB's earnings per share (EPS) last year?

A) $2.50.

B) $2.25.

C) $4.75.

Question #42 of 155

Question ID: 1457365

Selected financial ratios from Mulroy Company's common-size income statements are as follows:

	20X1	20X2	20X3
Gross profit margin	22%	24%	26%
Operating profit margin	18%	20%	22%
Pretax margin	15%	14%	13%
Net profit margin	11%	10%	9%

Relative to sales, it is *most likely* that Mulroy's:

A) operating expenses are increasing.

B) nonoperating expenses are increasing.

C) income tax expense is increasing.

Question #43 of 155

Question ID: 1457295

Roome Corp. has 5,000,000 common shares outstanding. There are 500,000 warrants outstanding to purchase the stock at $20, and there are 200,000 options outstanding to buy the stock at $50. The average market price for the stock over the year was $40, and the current stock price is $60. The number of shares used to calculate diluted EPS is:

A) 5,700,000 shares.

B) 5,300,000 shares.

C) 5,250,000 shares.

Question #44 of 155

Question ID: 1457254

An analyst gathered the following information about a company:

- 01/01/06 - 20,000 shares issued and outstanding
- 04/01/06 - 5.0% stock dividend
- 07/01/06 - 5,000 shares repurchased
- 10/01/06 - 2:1 stock split

What is the company's weighted average number of shares outstanding at the end of 2006?

A) 37,000.

B) 39,500.

C) 47,000.

Question #45 of 155

Question ID: 1457337

In calculating the numerator for diluted Earnings Per Share, the interest on convertible debt is:

A) added to earnings available to common shareholders.

B) added to earnings available to common shareholders after an adjustment for taxes.

C) subtracted from earnings available to common shareholders after an adjustment for taxes.

Question #46 of 155

Question ID: 1457372

Are dividends paid to common shareholders and foreign currency translation gains and losses included in a firm's other comprehensive income?

	Dividends paid	Foreign currency translation gains and losses
A)	Yes	Yes
B)	No	Yes
C)	No	No

Question #47 of 155

Question ID: 1457234

At the beginning of its first year of business, Digmore Corporation acquires a fixed asset for $90 million and estimates that it will have a useful life of eight years and a salvage value of $10 million. Digmore expects the asset to produce 150 million units of output over its life, including 30 million units in each of the first three years, 20 million units in each of years 4 to 7, and 10 million units in year 8. If depreciation expense in the first year is $10 million, what method of depreciation did Digmore *most likely* use?

A) Straight Line.

B) Double-declining-balance.

C) Units of production.

Question #48 of 155

Question ID: 1457358

Valuable Corp.'s basic earnings per share (EPS) and diluted EPS for the year are different. Given this information, which of the following statements is *least accurate*?

A) All of Valuable's potentially dilutive securities are antidilutive.

B) Diluted EPS is less than basic EPS.

C) Valuable Corp.'s capital structure may include both options and warrants.

Question #49 of 155

Question ID: 1457347

Protocol, Inc.'s net income for 2005 was $4,800,000. Protocol had 800,000 shares of common stock outstanding for the entire year. The tax rate was 40 percent. The average share price in 2005 was $37.00. Protocol had 5,000 8 percent $1,000 par value convertible bonds that were issued in 2004. Each bond is convertible into 25 shares of common stock. Protocol, Inc.'s basic and diluted earnings per share for 2005 were *closest* to:

	Basic EPS	Diluted EPS
A)	$5.19	$4.92
B)	$6.00	$4.92
C)	$6.00	$5.45

Question #50 of 155

Question ID: 1457348

Selected information from Gerrard, Inc.'s financial activities in the most recent year was as follows:

- Net income was $330,000.
- The tax rate was 40%.
- 700,000 shares of common stock were outstanding on January 1.
- The average market price per share for the year was $6.
- Dividends were paid during the year.
- 2,000 shares of 8% $500 par value preferred shares, convertible into common shares at a rate of 200 common shares for each preferred share, were outstanding for the entire year.
- 200,000 shares of common stock were issued on March 1.

Gerrard, Inc.'s diluted earnings per share (diluted EPS) was *closest* to:

A) $0.197.

B) $0.261.

C) $0.289.

Question #51 of 155

Question ID: 1457309

The following data pertains to the Sapphire Company:

- Net income equals $15,000.
- 5,000 shares of common stock issued on January 1st.
- 10% stock dividend issued on June 1st.
- 1,000 shares of common stock were repurchased on July 1st.
- 1,000 shares of 10%, $100 par preferred stock each convertible into 8 shares of common were outstanding the whole year.

What is the company's diluted earnings per share (EPS)?

A) $2.50.

B) $1.15.

C) $1.00.

Question #52 of 155

Question ID: 1457301

CXW, Inc. has issued 9,986 warrants, which were outstanding for the entire year, with an exercise price of $38. Each warrant is convertible into 1 share of common. The average market price of CXW's common stock for the year is $52.00 per share and its price at the end of the year is $45.00 per share. In the calculation of CXW's diluted earnings per share, how many new shares would theoretically need to be issued to facilitate warrant conversion?

A) 2,689.

B) 8,433.

C) 9,986.

Question #53 of 155

Question ID: 1457274

A firm had the following numbers of shares outstanding during the year:

Beginning of year	8,000,000 shares
Issued on April 1	750,000 shares
Paid stock dividend of 20% on July 1	
Issued on October 1	100,000 shares
Purchased Treasury stock November 1	1,000,000 shares
Split 2 for 1 on December 31	

Based on this information, what is the weighted number of shares outstanding for the year?

A) 42,444,444.

B) 20,783,333.

C) 20,266,667.

Question #54 of 155

Question ID: 1457317

Assume that the exercise price of an option is $5, and the average market price of the stock is $8. Assuming 816 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the diluted EPS?

A) 510.

B) 816.

C) 306.

Question #55 of 155

Question ID: 1457277

Which of the following debt securities issued by a company would give it a complex capital structure?

A) Floating rate notes.

B) Asset-backed securities.

C) Convertible bonds.

Question #56 of 155

Question ID: 1457329

Selected information from Caledonia, Inc.'s financial activities in the year 20X6 is as follows:

- Net income = $460,000.
- 2,300,000 shares of common stock were outstanding on January 1.
- The average market price per share was $2 and the year-end stock price was $1.50.
- 1,000 shares of 8%, $1,000 par value preferred shares were outstanding on January 1. Preferred dividends were paid in 20X6.
- 10,000 warrants, each of which allows the holder to purchase 100 shares of common stock at an exercise price of $1.50 per common share, were outstanding the entire year.

Caledonia's diluted earnings per share for 20X6 are *closest* to:

A) $0.180.

B) $0.15.

C) $0.165.

Question #57 of 155

Question ID: 1457222

Do gains and losses, as well as expenses appear on the income statement?

A) Both appear on the income statement.

B) Only expenses appear on the income statement.

C) Only gains and losses appear on the income statement.

Question #58 of 155

Question ID: 1457283

A complex capital structure, for purposes of determining disclosure of diluted earnings per share, is distinguished from a simple capital structure by the company having outstanding:

A) debt securities or convertible securities.

B) preferred stock, warrants, or options.

C) warrants, convertible securities, or options.

Question #59 of 155

Question ID: 1457332

The Allen Corporation had 100,000 shares of common stock outstanding at the beginning of the year. Allen issued 30,000 shares of common May 1. On July 1, the company issued a 10% stock dividend. On September 1, Allen issued 1,000, 10% bonds convertible into 21 shares of stock each. What is the weighted average number of shares to be used in computing basic and diluted earnings per share (EPS), assuming the convertible bonds are dilutive?

	Basic Shares	Diluted Shares
A)	132,000	139,000
B)	130,000	132,000
C)	132,000	146,000

Question #60 of 155

Question ID: 1457357

An analyst compiled the following information from Hampshire, Inc.'s financial activities in the most recent year:

- Net income was $2,800,000.
- 100,000 shares of common stock were outstanding on January 1.
- The average market price per share for the year was $250.
- 10,000 shares of 6%, $1,000 par value preferred shares were outstanding the entire year.
- 10,000 warrants, which allow the holder to purchase 10 shares of common stock for each warrant held at a price of $150 per common share, were outstanding the entire year.
- 30,000 shares of common stock were issued on September 1.

Hampshire, Inc.'s diluted earnings per share are *closest* to:

A) $18.38.

B) $14.67.

C) $20.00.

Question #61 of 155

Question ID: 1457321

A 12 percent $100,000 convertible bond was issued on October 1, 2004. It is dilutive and can be converted into 18,000 shares. The effective income tax rate for the year was 40%. What adjustments should be made to calculate diluted earnings per share?

	Interest added to the numerator	Shares added to the denominator
A)	$1,800	4,500
B)	$3,000	4,500
C)	$3,000	18,000

Question #62 of 155

Question ID: 1457328

Young Distributors, Inc. issued convertible bonds two years ago, and those bonds are the only potentially dilutive security Young has issued. In 20X5, Young's basic earnings per share (EPS) and diluted EPS were identical, but in 20X4 they were different. Which of the following factors is *least likely* to explain the difference between basic and diluted EPS? The:

A) average market price of Young common stock increased in 20X5.

B) bonds were antidilutive in 20X5 but not in 20X4.

C) bonds were redeemed by Young Distributors at the beginning of 20X5.

Question #63 of 155

Question ID: 1457316

The Widget Company had net income of $1 million for the period. There were 1 million shares of widget common stock outstanding for the entire period. If there are 100,000 options outstanding with an exercise price of $40, what is the diluted earnings per share for Widget common stock if the average price per share over the period was $50?

A) $0.98.

B) $0.99.

C) $1.00.

Question #64 of 155

Question ID: 1457367

A company reports a gain of €100,000 on the sale of an asset and a loss of €100,000 due to foreign currency translation adjustment. Which of these items will be included in the company's comprehensive income?

A) Neither of these items is included in comprehensive income.

B) Only one of these items is included in comprehensive income.

C) Both of these items are included in comprehensive income.

Question #65 of 155

Question ID: 1482629

For the year ended December 31, 20X7, Milan Company reported the following financial information:

Gross profit from sales	$600,000
Operating expenses	100,000
Unrealized loss from foreign currency translation	30,000
Dividends received from available-for-sale securities	15,000
Remeasurement of net pension liability	45,000
Interest expense	25,000
Acquired treasury stock for $25,000 more than original book value	75,000
Unrealized gain from available-for-sale-securities	20,000

Ignoring taxes, Milan's comprehensive income for 20X7 is:

A) $435,000.

B) $44,000.

C) $2,000.

Question #66 of 155

Question ID: 1457368

Barracuda Corporation, a U.S. corporation, owns a subsidiary located in Germany. The German subsidiary's financial statements are maintained in euros. If the euro recently appreciated relative to the U.S. dollar, how would the unrealized translation gain affect Barracuda's retained earnings and total stockholders' equity?

	Retained earnings	Total stockholders' equity
A)	Increase	Increase
B)	No effect	Increase
C)	No effect	No effect

Question #67 of 155

Question ID: 1457263

Connecticut, Inc.'s stock transactions during the year 20X5 were as follows:

- January 1: 360,000 common shares outstanding.
- April 1: 1 for 3 reverse stock split.
- July 1: 60,000 common shares issued.

When computing for earnings per share (EPS) computation purposes, what is Connecticut's weighted average number of shares outstanding during 20X5?

A) 140,000.

B) 210,000.

C) 150,000.

Question #68 of 155

Question ID: 1457314

The Fischer Company had net income of $1,500,000. Fischer paid preferred dividends of $5 on each of the 100,000 preferred shares. There are 1 million Fischer common shares outstanding. In addition to the common and preferred stock, Fischer has $25 million of 4% bonds outstanding. The face value of each bond is $1,000. Each bond is convertible into 40 common shares. If Fischer's tax rate is 40%, determine its basic and diluted earnings per share (EPS)?

	Basic EPS	Diluted EPS
A)	$1.00	$0.80
B)	$1.50	$1.25
C)	$1.00	$1.25

Question #69 of 155

Question ID: 1462809

During 20X3, Rory, Inc., reported net income of $15,000 and had 2,000 shares of common stock outstanding for the entire year. Rory also had 2,000 shares of 10%, $50 par value preferred stock outstanding during 20X3. During 20X1, Rory issued 100, $1,000 par, 6% bonds for $100,000. Each of the bonds is convertible to 50 shares of common stock. Rory's tax rate is 40%. Assuming these bonds are dilutive, 20X3 diluted EPS for Rory is *closest* to:

A) $2.50.

B) $0.71.

C) $1.23.

Question #70 of 155

Question ID: 1457251

Suppose that JPK, Inc., paid dividends of $80,000 to its preferred shareholders and $40,000 to its common shareholders during 2004. The company had 20,000 shares of common stock issued and outstanding on January 1, 2004, issued 7,000 more shares on June 1, 2004, and paid a 10% stock dividend on August 1, 2004. Assuming that JPK had $150,000 in net income, what is the firm's basic earnings per share (EPS) for 2004?

A) $2.64.

B) $2.91.

C) $2.71.

Question #71 of 155

Question ID: 1457255

At the beginning of 2004, the Alaska Corporation had 2 million shares of common stock outstanding and no preferred stock. At the end of August, 2004, Alaska issued 600,000 new shares of common stock. If Alaska reported net income equal to $8.8 million, what was the firm's earnings per share for 2004?

A) $3.38.

B) $3.67.

C) $4.00.

Question #72 of 155

Question ID: 1457356

Selected information from Feder Corp.'s financial activities for the year is as follows:

- Net income was $7,650,000.
- 1,100,000 shares of common stock were outstanding on January 1.
- The average market price per share was $62.
- Dividends were paid during the year.
- The tax rate was 40%.
- 10,000 shares of 6% $1,000 par value preferred shares convertible into common shares at a rate of 20 common shares for each preferred share were outstanding for the entire year.
- 70,000 options, which allow the holder to purchase 10 shares of common stock at an exercise price of $50 per common share, were outstanding the entire year.

Feder Corp.'s diluted earnings per share (EPS) was *closest* to:

A) $4.91.

B) $5.32.

C) $5.87.

Question #73 of 155

Question ID: 1462813

An analyst gathered the following data about a company:

- The company had 500,000 shares of common stock outstanding for the entire year.
- The company's beginning stock price was $40, its ending price was $60, and its average price over the year was $50.
- The company has 120,000 warrants outstanding for the entire year.
- Each warrant allows the holder to buy one share of common stock at $45 per share.

How many shares of common stock should the company use in computing its diluted earnings per share?

A) 500,000.

B) 488,000.

C) 512,000.

Question #74 of 155

Question ID: 1457270

Consider the following information on the past year's operating performance and current capital structure for the following two companies:

Supple Moves	*Perfect Collection*
Paid no dividends	Paid common & pref. div.
Ave. Stock Price of $42.00	Ave. Stock Price of $22.00
Positive net income	Positive net income
110,000 warrants with an exercise price of $50.00	Convertible debt with an 8.0% coupon, conversion ratio at 10.0.
	150,000 options outstanding with an exercise price of $19.50

Based on the information above, which of the companies has a complex capital structure?

A) Supple Moves only.

B) Perfect Collection only.

C) Supple Moves and Perfect Collection.

Question #75 of 155

Question ID: 1457243

Which of the following items for a financial services company is *least likely* to be considered an operating item on the income statement?

A) Financing expenses.

B) Income tax expense.

C) Interest income.

Question #76 of 155

Question ID: 1457318

An analyst has gathered the following information about Zany Corp.

- Net income of $200,000 for the year ended December 31, 2004.
- During 2004, 50,000 common shares were outstanding.
- Zany has 10,000 shares of 7%, $50 par convertible preferred stock outstanding, each convertible into two shares of common.
- 5,000 warrants are outstanding with an exercise price of $24. Each warrant is convertible into one common share.
- The average market price per common share during 2004 was $20.

Calculate Zany's basic and diluted earnings per share (EPS) for 2004.

	Basic EPS	Diluted EPS
A)	$4.00	$2.86
B)	$3.30	$2.00
C)	$3.30	$2.86

Question #77 of 155

Question ID: 1457281

Jersey, Inc.'s financial information included the following for its year ended December 31:

- 160,000 shares of common stock were outstanding for the entire year.
- 18,000 shares of 10%, $100 par value cumulative preferred stock were outstanding for the entire year.
- Common stock dividends paid during the current year were $240,000.
- All preferred stock dividends were paid for the current year.
- Net income was $720,000.

Basic earnings per share for Jersey, Inc. for the year ended December 31 are *closest to:*

A) $3.38.

B) $4.50.

C) $2.81.

Question #78 of 155

Question ID: 1457373

According to the Financial Accounting Standards Board, what is the appropriate balance sheet treatment for available-for-sale securities and where are the unrealized gains and losses reported?

	Balance sheet	Unrealized gains and losses
A)	Amortized cost	Other comprehensive income
B)	Fair value	Net income
C)	Fair value	Other comprehensive income

Question #79 of 155

Question ID: 1457272

Robinson Company had 1 million shares outstanding at the beginning of the year. On April 1, Robinson issued an additional 300,000 shares. On July 1, Robinson issued 200,000 more shares. What is Robinson's weighted average number of shares outstanding for the calculation of earnings per share?

A) 1,500,000 shares.

B) 1,325,000 shares.

C) 1,200,000 shares.

Question #80 of 155

Question ID: 1457291

Zichron, Inc., had the following equity accounts on December 31:

- Common stock: 20,000 shares.
- Preferred stock A: 10,000 shares convertible into common on a 2 for 1 basis, dividend of $40,000 was declared during the year.
- Preferred stock B: 10,000 shares, convertible to common on a 4 for 1 basis, dividend of $5,000 was declared during the year.
- The company reported net income of $120,000 and paid a $20,000 dividend to its common shareholders.

Basic earnings per share for the year are:

A) $3.75.

B) $2.00.

C) $2.75.

Question #81 of 155

Question ID: 1462806

Gus Davy, CFA, is reviewing an industry that has been experiencing rising prices as well as unit volume growth. Davy's investment criteria include selecting companies generating the highest profit margins. If Davy does not adjust companies' financial statements for their inventory cost assumptions, he is *most likely* to select companies that use:

A) LIFO.

B) FIFO.

C) weighted average cost.

Question #82 of 155

Question ID: 1457324

Rushford Corp.'s net income is $16,500,000 with 300,000 shares outstanding. The tax rate is 40%. The average share price for the year was $372. Rushford has 50,000, 9%, $1,000 par value convertible bonds outstanding. Each bond is convertible into two shares of common stock.

Rushford Corp.'s basic and diluted earnings per share (EPS) are *closest* to:

	Basic EPS	Diluted EPS
A)	$55.00	$51.56
B)	$65.63	$48.00
C)	$55.00	$48.00

Question #83 of 155

Question ID: 1457320

On December 31, 2004, JME Corporation had 350,000 shares of common stock outstanding. On September 1, 2005, an additional 150,000 shares of common stock were issued. In addition, JME had $10 million of 8% convertible bonds outstanding at December 31, 2004, which are convertible into 200,000 shares of common stock. Net income for 2005 was $3 million. Assuming an income tax rate of 40%, what amount should be reported as the diluted earnings per share for 2005?

A) $6.00.

B) $5.80.

C) $5.00.

Question #84 of 155

Question ID: 1457271

At the beginning of 2004, Osami Corporation had 1.4 million shares of common stock outstanding and no preferred stock. At the end of August 2004, Osami issued 1.2 million new shares of common stock. If Osami reported net income equal to $7.2 million, what were its earnings per share (EPS) for 2004?

A) $2.77.

B) $3.33.

C) $4.00.

Question #85 of 155

Question ID: 1457266

Ajax Company has a simple capital structure. Which of the following will NOT be found on its balance sheet?

A) 6%, $50 par value callable bond.

B) 10%, secured mortgage bond denominated in Swiss francs.

C) 3%, $100 par value convertible bond.

Question #86 of 155

Question ID: 1462811

Which of the following statements about the calculation of earnings per share (EPS) is *least accurate*?

A) Reacquired shares are excluded from the computation from the date of reacquisition.

B) Shares issued after a stock split must be adjusted for the split.

C) Options outstanding may have no effect on diluted EPS.

Question #87 of 155

Question ID: 1457246

The First National Bank is a commercial bank that specializes in consumer financing, particularly automobile loans. The majority of the loans are funded from customer deposits. In addition, the bank purchases various investment securities with available cash. The investments are debt securities and have an average maturity date of less than 30 days. Should First National Bank report the interest received from the consumer loans and the interest received from the investment securities as an operating or as a nonoperating component in its year-end income statement?

Consumer loans	Investment securities

A)	Nonoperating	Operating
B)	Operating	Operating
C)	Operating	Nonoperating

Question #88 of 155

Question ID: 1457325

Selected information from Jupiter Corp.'s financial activities in the year 20X5 is as follows:

- Net income is $18,300,000.
- 115,000 shares of common stock were outstanding on January 1.
- The average market price per share was $150 in 20X5.
- 200 warrants, which each allow the holder to purchase 100 shares of common stock at an exercise price of $100 per common share, were outstanding the entire year.
- 60,000 shares of common stock were issued on April 1.
- 45,000 shares of common stock were purchased by the company as treasury stock on October 1.

Jupiter Corp.'s diluted earnings per share for 20X5 are *closest* to:

A) $117.75.

B) $123.02.

C) $159.13.

Question #89 of 155

Question ID: 1457223

Would an increase in the cost of raw materials used in the production of inventory and would an increase in marketing expenses result in lower gross profit?

	Increase in raw materials cost	Increase in marketing expense
A)	No	Yes
B)	Yes	No

C) Yes Yes

Question #90 of 155

Question ID: 1457353

Examples of potentially dilutive securities *least likely* include:

A) stock options.

B) premium bonds.

C) convertible preferred stock.

Question #91 of 155

Question ID: 1457322

A company has convertible preferred stock outstanding. In the computation of diluted earnings per share, common shares issued when convertible preferred stock is converted are added to the denominator of the basic EPS equation, and the numerator is:

A) adjusted by adding back convertible preferred stock dividends.

B) adjusted by adding back non-convertible preferred stock dividends.

C) not adjusted.

Question #92 of 155

Question ID: 1457330

Kendall Company's net income for 20X4 is $830,000 with 200,000 shares outstanding. Kendall has 1,000 6% convertible bonds (each bond $1,000 face value and convertible into 20 common shares) outstanding for the entire year. Kendall's tax rate is 40%. What is Kendall Company's diluted earnings per share for 20X4?

A) $3.77.

B) $3.94.

C) $4.15.

Question #93 of 155

Question ID: 1457282

Bluff, Inc.'s stock transactions during the year were as follows:

January 1	90,000 common shares outstanding.
April 1	20% stock dividend is declared and issued.
October 1	10,000 shares are reacquired as treasury stock.

What is Bluff's weighted average number of shares outstanding during the year?

A) 98,000.

B) 101,000.

C) 105,500.

Question #94 of 155

Question ID: 1457247

A company reports the following unusual events:

- Loss on discontinued operations.
- Restructuring and severance costs applicable to asset sales.
- Plant shutdown costs.

Which of these items would *most likely* be considered nonrecurring and included in operating income?

A) Restructuring and severance costs applicable to asset sales and plant shutdown costs.

B) Loss on discontinued operations and restructuring and severance costs applicable to asset sales.

C) Loss on discontinued operations and plant shutdown costs.

Question #95 of 155

Question ID: 1457231

JME Construction signs a contract in the amount of $10 million with the following data available:

Costs incurred in Year 1	$2,200,000
Billings in Year 1	$2,000,000
Cash collected in Year 1	$1,750,000
Total cost of project	$8,800,000

How much revenue should JME recognize for Year 1?

A) $2,500,000.

B) 1,750,000.

C) 2,270,000.

Question #96 of 155

Question ID: 1457232

The first-in-first-out (FIFO) expense recognition method for inventories *best* describes the physical flow of goods if customers typically purchase units:

A) from the top of a stack.

B) in the same order the units are produced.

C) selectively from among all units for sale.

Question #97 of 155

Question ID: 1457229

CPP Corporation has a contract to build a custom test chamber for a client for $100,000. CPP Corporation uses the percentage-of-completion method for accounting and estimates the total costs for the project to be equal to $80,000. CPP Corporation has promised to complete the project within three years. At year-end the customer has paid $60,000, equaling the total amount billed for the year, and total costs incurred to date are $40,000. On the income statement, net income for the year-end will be:

A) $10,000.00.

B) $20,000.00.

C) -$10,000.00.

Question #98 of 155

Question ID: 1457331

Quad Associates, Inc.'s net income for 2005 was $892,000 with 400,000 shares outstanding. The tax rate was 40 percent. Quad had 2,000 six percent $1,000 par value convertible bonds that were issued in 2004. Each bond was convertible into 40 shares of common stock. Quad, Inc.'s diluted earnings per share (Diluted EPS) for 2005 was *closest* to:

A) $2.23.

B) $2.01.

C) $2.41.

Question #99 of 155

Question ID: 1457267

A simple capital structure is *least likely* to include:

A) callable preferred stock.

B) treasury stock.

C) convertible bonds.

Question #100 of 155

Question ID: 1457334

An analyst has gathered the following information about Barnstabur, Inc., for the year:

- Reported net income of $30,000.
- 5,000 shares of common stock and 2,000 shares of 8%, $90 par preferred stock outstanding during the whole year.
- Barnstabur, has $60,000 of 6.0% convertible bonds outstanding, with each of the 60 bonds convertible into 110 shares of Barnstabur common stock.

If Barnstabur's effective tax rate is 40%, what will Barnstabur report for diluted earnings per share (EPS)?

A) $1.66.

B) $1.53.

C) $2.36.

Question #101 of 155

Question ID: 1457264

The following information pertains to Bender, Inc., for last year:

- Net income of $25 million.
- 1 million shares of $10 par value preferred stock outstanding paying a 10% dividend.
- 50 million shares of common stock outstanding at the beginning of the year.
- Issued an additional 5 million shares of common stock on 7/1.

What is Bender, Inc.'s basic earnings per share (EPS)?

A) $0.384.

B) $0.457.

C) $0.476.

Question #102 of 155

Question ID: 1457261

For a firm with a simple capital structure, all of the following are necessary to measure basic earnings per share (EPS) EXCEPT:

A) the timing and number of shares issued or repurchased during the year.

B) dividends paid to preferred shareholders.

C) dividends paid to common shareholders.

Question #103 of 155

Question ID: 1457236

When a firm recognizes revenue in excess of expenses on a product before cash is collected, what is the impact on the firm's assets and liabilities, ignoring taxes?

	Assets	Liabilities
A)	No effect	Increase
B)	Increase	Increase
C)	Increase	No effect

Question #104 of 155

Question ID: 1462807

For a manufacturing company reporting under U.S. GAAP, interest received is *most likely* reported as:

A) both an operating cash flow and operating income.

B) an operating cash flow but as non-operating income.

C) an investing cash flow and as non-operating income.

Question #105 of 155

Question ID: 1457343

Advantage Corp.'s capital structure was as follows:

	December 31, 2005	December 31, 2004
Outstanding shares of stock:		
Common	110,000	110,000
Convertible Preferred	10,000	10,000
% Convertible Bonds	$1,000,000	$1,000,000

During 2005, Advantage paid dividends of $3 per share on its preferred stock. The preferred shares are convertible into 20,000 shares of common stock. The 8% bonds are convertible into 30,000 shares of common stock. Net income for 2005 was $850,000. Assume the income tax rate is 30%.

Calculate Advantage's basic and diluted earnings per share (EPS) for 2005.

	Basic EPS	Diluted EPS
A)	$7.45	$5.66
B)	$7.45	$6.26
C)	$6.31	$5.66

Question #106 of 155

Question ID: 1457241

A company changes from an incorrect method of accounting to an acceptable one. Which of the following statements about this change is *most accurate*?

A) It requires restatement of any prior period results that are presented in the current financial statements.

B) It is an unusual or infrequent item and is reported in net income from continuing operations.

C) It is a change in accounting principle and is reported below the line net of taxes.

Question #107 of 155

Question ID: 1457252

A firm's financial statements reflect the following:

Net income	$1,700,000
EBIT	$2,900,000
Effective tax rate	35%
Interest payments	$285,000
Common equity	$3,100,000
Total assets	$6,600,000
Preferred dividends paid	$1,100,000
Weighted avg. shares outstanding	523,000

Based on this information, what is the firm's basic EPS?

A) $2.75.

B) $3.25.

C) $1.15.

Question #108 of 155

Question ID: 1457351

Which of the following statements is CORRECT regarding the reporting of earnings per share (EPS)?

A) Basic EPS can be less than diluted EPS.

B) The EPS when antidilutive securities are converted into shares of common stock is less than basic EPS.

C) Diluted EPS must be less than or equal to basic EPS.

Question #109 of 155

Question ID: 1462815

In applying the treasury stock method, if warrants allow the purchase of 1 million shares at $42 per share when the average price is $56 per share, how many shares will be added to the firm's weighted average number of shares outstanding?

A) 250,000.

B) 420,000.

C) 1,000,000.

Question #110 of 155

Question ID: 1462816

Which of the following items would affect owners' equity and also appear on the income statement?

A) Dividends paid to shareholders.

B) Unrealized gains and losses on available-for-sale securities.

C) Unrealized gains and losses on trading securities.

Question #111 of 155

Question ID: 1457287

Savannah Corp.'s financial accounts for the year ended December 31 included the following information:

- Net Income: $122,000
- Preferred Stock Dividends Paid: $35,000
- Common Stock Dividends Paid: $42,000
- Common Shares outstanding at January 1: 50,000
- 10% preferred $100 par value shares outstanding at January 1: 3,500

No stock transactions occurred during the year and all preferred stock dividends were paid. Basic earnings per share for Savannah are *closest* to:

A) $2.44.

B) $0.90.

C) $1.74.

Question #112 of 155

Question ID: 1457289

Selected information from Able Company's financial activities is as follows:

- Net Income was $720,000.
- 1,000,000 shares of common stock were outstanding on January 1.
- 1,000 shares of 8%, $1,000 par value preferred shares were outstanding on January 1.
- The tax rate was 40%.
- The average market price per share for the year was $20.
- 6,000 shares of 3%, $500 par value preferred shares, convertible into common shares at a rate of 40 common shares for each preferred share, were outstanding for the entire year.

Able's basic and diluted earnings per share (EPS) are *closest* to:

	Basic EPS	Diluted EPS
A)	$0.55	$0.55
B)	$0.55	$0.52
C)	$0.64	$0.64

Question #113 of 155

Question ID: 1457352

Which of the following statements regarding the treasury stock method of computing diluted shares is *least* accurate? The treasury stock method:

A) increases the total number of shares by less than the number that the exercise of the options would create.

B) is used when the exercise price of the option is less than the average market price.

C) assumes that the hypothetical funds received by the company from the exercise of the options are used to sell shares of the company's common stock in the market at the average market price.

Question #114 of 155

Question ID: 1457268

The ZZT Company went public on June 1, 2004, by issuing 25 million shares of common stock. In 2005, the firm raised additional capital by issuing 2 million shares of preferred stock. What is the weighted average number of common shares outstanding for the year ending December 31, 2005?

A) 14,583,333.

B) 25,000,000.

C) 10,416,667.

Question #115 of 155

Question ID: 1457257

An analyst gathered the following information about a company:

- 01/01/04 - 50,000 shares issued and outstanding at the beginning of the year
- 04/01/04 - 5% stock dividend
- 10/01/04 - 10% stock dividend

What is the company's weighted average number of shares outstanding at the end of 2004?

A) 55,000.

B) 57,500.

C) 57,750.

Question #116 of 155

Question ID: 1462812

A company had the following changes in its stock:

- The company had 2 million shares outstanding on December 31, 20X6.
- On March 31, 20X7, the company paid a 10% stock dividend.
- On June 30, 20X7, the company sold $10 million face value of 7% convertible debentures, convertible into common at $5 per share.
- On September 30, 20X7, the company issued and sold 100,000 shares of common stock.

The company should compute its 20X7 basic earnings per share based on:

A) 2,225,000 shares.

B) 2,250,000 shares.

C) 3,225,000 shares.

Question #117 of 155

Question ID: 1457346

Which of the following statements about a firm with convertible preferred stock outstanding is *most* accurate?

A) If diluted and basic EPS are equal, the firm must report both basic and diluted EPS.

B) Diluted EPS is calculated with net income minus preferred dividends in the numerator.

C) If diluted EPS is less than basic EPS then the convertible preferred is said to be antidilutive.

Question #118 of 155

Question ID: 1457250

The following data pertains to the Megatron company:

- Net income equals $15,000.
- 5,000 shares of common stock issued on January 1.
- 10% stock dividend issued on June 1.
- 1000 shares of common stock were repurchased on July 1.
- 1000 shares of 10%, par $100 preferred stock each convertible into 8 shares of common were outstanding the whole year.

How many common shares should be used in computing the company's basic earnings per share (EPS)?

A) 5,500.

B) 4,500.

C) 5,000.

Question #119 of 155

Question ID: 1457310

Assume that the exercise price of an option is $11, and the average market price of the stock is $16. Assuming 1,039 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the Diluted EPS?

A) 714.

B) 1,039.

C) 325.

Question #120 of 155

Question ID: 1457233

Which expense recognition method is *most appropriate* for intangible assets with indefinite lives?

A) Test for impairment but do not amortize.

B) Use accelerated amortization for tax reporting and straight-line amortization for financial reporting.

C) Use straight-line amortization.

Question #121 of 155

Question ID: 1457279

Which type of a capital structure contains no dilutive securities?

A) Complex.

B) Simple.

C) Basic.

Question #122 of 155

Question ID: 1457340

Which of the following statements about the earnings per share calculation are *most accurate*?

A) If the diluted EPS is less than the basic EPS, then the diluted EPS is said to be anti-dilutive.

B) None of these choices are correct.

C) When calculating diluted EPS you must add the shares created from the conversion of the bonds to the denominator and the interest expense times the tax rate to the numerator.

Question #123 of 155

Question ID: 1457245

Red Oak Corporation is a furniture manufacturer located in Canada. Red Oak is financed with a combination of debt and equity. The debt consists of unsecured zero-coupon bonds that mature in 20 years. For income tax purposes, interest on the bonds is deductible when accrued. Red Oak's equity consists of common stock and preferred stock. No dividends have ever been paid on Red Oak's common stock; however, dividends are paid quarterly to the preferred shareholders. Should the accrued interest on the zero-coupon bonds and the dividends paid to the preferred shareholders be reported as a nonoperating component of Red Oak's net income?

	Accrued interest	Preferred dividends
A)	No	Yes
B)	Yes	No
C)	Yes	Yes

Question #124 of 155

Question ID: 1457307

When considering convertible preferred stock which of the following components of the earnings per share (EPS) equation needs to be adjusted to calculate diluted earnings per share?

A) The denominator.

B) The numerator and denominator.

C) The numerator.

Question #125 of 155

Question ID: 1457342

Securities are considered to be dilutive to earnings per share if:

A) they can be converted to common shares now or at any time in the future.

B) converting them to common shares would decrease earnings available to common shareholders.

C) converting them to common shares would actually reduce earnings per share, compared to basic earnings per share.

Question #126 of 155

Question ID: 1457336

An analyst has gathered the following information about Artcraft, Inc. for the year:

- Net income of $30,000.
- 5,000 shares of common stock and 500 shares of 8%, $90 par convertible preferred stock outstanding during the whole year.
- Each share of convertible preferred can be converted into 4 shares of common stock.
- Last year, Artcraft issued at par, $60,000 total face value of 6.0% convertible bonds, with each of the 60 bonds convertible into 110 shares of the Artcraft common stock.

If Artcraft's effective tax rate is 40%, what will Artcraft report as diluted earnings per share (EPS)?

A) $2.36.

B) $3.12.

C) $3.37.

Question #127 of 155

Question ID: 1457359

Moulding Company's net income was $13,820,000 with 2,600,000 shares outstanding. The average share price for the year was $58.00. Moulding had 10,000 options to purchase 10 shares each at $40 per share outstanding the entire year. Moulding Company's diluted earnings per share are *closest* to:

A) $5.25.

B) $5.32.

C) $3.71.

Question #128 of 155

Question ID: 1457258

A firm has a weighted average number of 20,000 common shares selling at an average of $10 throughout the year and 11,000, 10%, $100 par value preferred shares. If the firm earns $210,000 after taxes, what is its Basic EPS?

A) $5.00 / share.

B) $7.50 / share.

C) $10.50 / share.

Question #129 of 155

Question ID: 1457345

Which of the following statements regarding basic and diluted EPS is *least* accurate?

A) A simple capital structure contains no potentially dilutive securities.

B) Antidilutive securities decrease EPS if they are exercised or converted.

C) Dilutive securities decrease EPS if they are exercised or converted to common stock.

Question #130 of 155

Question ID: 1457260

As of the beginning of the year HalfPass Productions, Inc., had the following complex capital structure:

- 3,000,000 common shares outstanding.
- 175,000 options with an exercise price of $22.
- 250,000 warrants with an exercise price of $18.

During the year:

- On March 1, the company issued 100,000 new shares of common stock.
- On July 1, the board of directors declared a 15% stock dividend.
- On September 1, the company repurchased 125,000 shares.
- Net income (after-tax) for the year was $7,500,000.
- The company paid common dividends of $2,750,000 and preferred dividends of $1,300,000.
- The average market price for the common stock was $25 per share.

Assume the fiscal year is January 1 through December 31. At year end, HalfPass's basic EPS is *closest* to:

A) $1.66.

B) $1.94.

C) $1.77.

Question #131 of 155

Question ID: 1462808

A company has the following sequence of events regarding its stock:

- The company had 1,000,000 shares outstanding at the beginning of the year.
- On June 30, the company declared and issued a 10% stock dividend.
- On September 30, the company sold 400,000 shares of common stock at par.

The number of shares that should be used to compute basic earnings per share at year end is:

A) 1,000,000.

B) 1,200,000.

C) 1,100,000.

Question #132 of 155

Question ID: 1457341

Securities that improve basic per share earnings, or reduce per share losses, if they are exercised or converted to common stock are called:

A) embedded securities.

B) dilutive securities.

C) antidilutive securities.

Question #133 of 155

Question ID: 1457292

Zichron, Inc., had the following equity accounts on December 31:

- Common stock: 20,000 shares.
- Preferred stock A: 10,000 shares convertible into common on a 2 for 1 basis, dividend of $40,000 was declared during the year.
- Preferred stock B: 10,000 shares, convertible to common on a 4 for 1 basis, dividend of $5,000 was declared during the year.
- The company reported net income of $120,000 and paid a $20,000 dividend to its common shareholders.

Diluted earnings per share for the year are:

A) $1.33.

B) $1.50.

C) $3.00.

Question #134 of 155

Question ID: 1457249

A company has the following sequence of events regarding their stock:

- One million shares outstanding at the beginning of the year.
- On June 30th, they declared and issued a 10% stock dividend.
- On September 30th, they sold 400,000 shares of common stock at par.

Basic earnings per share at year-end will be computed on how many shares?

A) 1,000,000.

B) 1,100,000.

C) 1,200,000.

Question #135 of 155

Question ID: 1457369

For the year ended December 31, 2007, Cobra Company reported the following financial information:

Revenue	$100,000
Cost of goods sold	40,000
Operating expenses	20,000
Unrealized gain from foreign currency translation	5,000
Unrealized loss on cash flow hedging derivatives	3,000
Dividends paid to common shareholders	7,500
Realized gain on sale of equipment	1,000

Ignoring taxes, calculate Cobra's net income and comprehensive income for 2007.

	Net income	Comprehensive income
A)	$40,000	$43,000
B)	$41,000	$2,000
C)	$41,000	$43,000

Question #136 of 155

Question ID: 1457269

The following information pertains the QRK Company:

- One million shares of common stock outstanding at the beginning of 2005.
- 200,000 shares issued on the last day of March.
- 500,000 shares issued on the last day of June.
- 800,000 shares issued on the last day of September.

What is the number of shares that should be used to compute 2005 earnings per share for the QRK Company?

A) 1.6 million.

B) 1.9 million.

C) 2.5 million.

Question #137 of 155

Question ID: 1457293

Trotters Diversified has 10,000 convertible bonds with a 6.0% coupon and $1,000 par value, each convertible into 8 shares of common stock. How many shares related to the convertible bonds should be included in the denominator of basic EPS?

A) 0.

B) 10,000.

C) 80,000.

Question #138 of 155

Question ID: 1457253

Maine Company's stock transactions during the year are described below:

January 1	100,000 common shares outstanding
March 1	2 for 1 stock split
August 1	10% stock dividend

The weighted average number of shares outstanding used to calculate earnings per share is:

A) 211,111.

B) 201,666.

C) 220,000.

Question #139 of 155

Question ID: 1457288

Lawson, Inc.'s net income for the year was $1,060,000 with 420,000 shares of common stock outstanding. Lawson has 2,000 shares of 8%, $1,000 par value convertible preferred stock that were outstanding the entire year. Each share of preferred is convertible into 50 shares of common stock. Lawson's diluted earnings per share are *closest* to:

A) $1.94.

B) $2.04.

C) $2.14.

Question #140 of 155

Question ID: 1457333

Selected information from Baltimore Corp's financial activities in the year 2004 is as follows:

- Net income was $4,200,000.
- 750,000 shares of common stock were outstanding on January 1.
- The average market price per share was $50 in 2004.
- Dividends were paid in 2004.

10,000 warrants, which allowed the holder to purchase 10 shares of common stock for each warrant held at a price of $40 per common share, were outstanding the entire year.

Baltimore's diluted earnings per share (Diluted EPS) for 2004 is *closest* to:

A) $4.94.

B) $5.45.

C) $5.60.

Question #141 of 155

Question ID: 1457235

Under accrual accounting, revenues are recognized in the same period in which the associated:

A) cash is collected.

B) expenses are incurred.

C) invoices are billed.

Question #142 of 155

Question ID: 1457227

The "All Faiths" church is building a new church for $2 million on land acquired several years ago. The contractor estimates the cost at $1.3 million and the project is to be completed over a 2-year period with the payments split evenly between the 2 years. During the first year, the total costs incurred were $700,000. During the second year the contractor experienced cost overruns and costs incurred were $1.0 million. Using the percentage-of-completion method, how much revenue and income should the contractor recognize in the second year of the project?

Revenue	Income

A)	$1,000,000	$0
B)	$1,076,923	$376,923
C)	$923,077	-$76,923

Question #143 of 155

Question ID: 1457276

The SSP Company had 5 million shares outstanding on January 1. On February 15 the board of directors approved a 3:2 stock split, effective April 1. What is the weighted average number of shares outstanding for the SSP Company for year-end?

A) 6,875,000 shares.

B) 7,500,000 shares.

C) 5,625,000 shares.

Question #144 of 155

Question ID: 1457319

Ajax Company's capital structure was as follows:

	December 31, 2004	*December 31, 2003*
Outstanding shares of stock:		
Common	200,000	200,000
Convertible preferred	5,000	5,000
6% Convertible Bonds	$500,000	$500,000

- During 2004, Ajax paid dividends of $2.00 per share on its preferred stock.
- The preferred shares are convertible into 10,000 shares of common stock.
- The 6% bonds are convertible into 15,000 shares of common stock.
- Net income for 2004 was $400,000.
- Assume that income tax rate is 40%.

Ajax's basic and diluted earnings per share for 2004 are:

	Basic EPS	Diluted EPS

A) $1.80	$1.86
B) $1.95	$1.86
C) $1.95	$1.95

Question #145 of 155

Question ID: 1462804

On a firm's income statement, sales minus cost of goods sold, minus selling, general, and administrative expenses, is *most appropriately* referred to as:

A) gross profit.

B) income before tax.

C) operating profit.

Question #146 of 155

Question ID: 1457285

Sampson Corp. had 500,000 shares of common stock outstanding at the beginning of the year. The average market price was $20.

- On April 1, Sampson issued 100,000 shares of $1000 par value 10 percent preferred stock.
- On July 1, Sampson issued 200,000 warrants to purchase 10 shares of common stock each at $22 per share.
- On October 1, Sampson repurchased 60,000 of common stock as treasury stock for $15 per share.

The weighted average common shares outstanding Sampson should use to compute basic earnings per share (EPS) was:

A) 600,000.

B) 515,000.

C) 485,000.

Question #147 of 155

Question ID: 1457275

A firm has had the following numbers of shares outstanding during the year:

Beginning of year	10,000,000 shares
Issued on April 1	500,000 shares
Split 2 for 1 on July 1	
Issued on October 1	100,000 shares
Split 2 for 1 on December 31	

Based on this information, what is the weighted number of shares outstanding for the year?

A) 20,780,000.

B) 41,550,000.

C) 42,400,000.

Question #148 of 155

Question ID: 1457311

Assume that the exercise price of an option is $10, and the average market price of the stock is $13. Assuming 999 options are outstanding during the entire year, what is the number of shares to be added to the denominator of the diluted earnings per share (EPS)?

A) 231.

B) 768.

C) 999.

Question #149 of 155

Question ID: 1457273

At the beginning of this year Aristotle Co. had 400,000 shares of common stock outstanding. During the year, Aristotle paid a 10 percent stock dividend on May 31, issued 90,000 new common shares on June 30, and repurchased 12,000 shares on December 1. The number of shares Aristotle should use in computing earnings per share at the end of the year is:

A) 476,000.

B) 484,000.

C) 475,000.

Question #150 of 155

Question ID: 1457280

Juniper Corp's stock transactions during the year 20X4 were as follows:

January 1	540,000 shares issued and outstanding
March 1	50 percent stock dividend
July 1	180,000 treasury shares reacquired
October 1	60,000 treasury shares reissued

When computing for earnings per share (EPS) computation purposes, what was Juniper's weighted average number of shares outstanding during 20X4?

A) 735,000.

B) 870,000.

C) 930,000.

Question #151 of 155

Question ID: 1457354

All of the following are considered a potentially dilutive securities EXCEPT:

A) preferred stock.

B) warrants.

C) stock options.

Question #152 of 155

Question ID: 1457294

The following information is for Trotters Diversified as of year-end:

- Average common shares outstanding of 5.0 million.
- Average market price for common stock of $35.00 per share.
- Net income of $9.0 million.
- Common stock dividends paid of $1.2 million.
- Tax rate of 40%.
- 500,000 shares of cumulative convertible preferred stock with $30 par value and 10% dividend. Each preferred share is convertible into 5 common shares. Preferred dividends of $1.5 million were paid.
- 10,000 convertible $1,000 par bonds with a 6.0% coupon, each convertible into 8 shares of common stock.
- 400,000 stock options with an exercise price of $32.00 per share.
- All of these securities were outstanding for the full year.

Diluted EPS for Trotters Diversified is *closest* to:

A) $1.50.

B) $1.19.

C) $1.23.

Question #153 of 155

Question ID: 1457284

Which of the following securities would *least likely* be found in a simple capital structure?

A) 3%, $100 par value convertible preferred.

B) 6%, $5000 par value putable bond.

C) 7%, $100 par value non convertible preferred.

Question #154 of 155

Question ID: 1457230

The Better Building Company has a contract to build a building for $100 million. The estimate of the cost of the project is $75 million. In the first year of the project, BB had costs of $30 million. The Better Building Company's reported profit for the first year of the contract, using the percentage-of-completion method, is:

A) $20 million.

B) $10 million.

C) $0.

Question #155 of 155

Question ID: 1457315

The Gaffe Company had net income of $1,500,000. Gaffe paid preferred dividends of $5 on each of the 100,000 preferred shares. Each preferred share is convertible into 20 common shares. There are 1 million Gaffe common shares outstanding. In addition to the common and preferred stock, Gaffe has $25 million of 4% bonds outstanding. If Gaffe's tax rate is 40%, what is its diluted earnings per share?

A) $0.33.

B) $0.50.

C) $1.00.