

LOYOLA COLLEGE (AUTONOMOUS), CHENNAI – 600 034



B.Com. DEGREE EXAMINATION – ACCOUNTING AND FINANCE

THIRD SEMESTER – NOVEMBER 2022

UAF 3503 – FINANCIAL REPORTING

Date: 30-11-2022

Dept. No.

Max. : 100 Marks

Time: 09:00 AM - 12:00 NOON

SECTION - A

Answer all the questions

(75*1=75 Marks)

1. While approving the financial statements for the current year, the management accountant of Rachael Groups discovered that sales were overstated. Which of the following is the most likely reason for the overstatement?
 - A) Sales returns recorded are more than actual returns.
 - B) Abnormal losses are not accounted for.
 - C) General sales tax collected from customers was not accounted for.
 - D) The last in, first out method is used for valuation of inventory.
2. "Employing different accounting methods will yield different net incomes." How is this factor a limitation of financial statements?
 - A) Choice between cash-based accounting and accrual accounting for financial reporting allows companies to smooth earnings for a longer period.
 - B) The flexibility of employing different methods for presentation of financial statements can lead to inaccurate disclosure of information.
 - C) Change in net income due to change in accounting methods affects the determination of future performance of a company.
 - D) Difference in results due to change in accounting methods makes it difficult for users to compare the performance of different entities.
3. The primary objective of financial reporting is / are
 - A) To comply with management requirements
 - B) To provide information only to shareholders of the company to use the information to take decisions.
 - C) To provide information to existing & potential investors, lenders and creditors to enable them to make decisions about providing resources to the entity
 - D) None of the above.
4. According to U.S. GAAP, where on the income statement should a multinational company report the loss from the disposal sale of a major operating unit?
 - A) Report the loss, pre-tax, in a separate section between income from continuing operations and net income.
 - B) Report the loss, net of tax, in a separate section between incomes from continuing operations and net income.
 - C) Report the loss, pre-tax, in a separate section between income from operations and income before income tax.
 - D) Report the loss, net of tax, in a separate section between income before tax and net income.
5. The financial statements include in the annual report to the shareholders are least useful to which one of the following:
 - A) Stockbroker
 - B) Bankers preparing to lend money
 - C) Competing Business
 - D) Manager in charge of Operating Activities
6. A company is preparing its financial statements in accordance with U.S. GAAP. Listed below are select financial data for the company.
 - Net income = \$950,000

- Depreciation = \$40,000
- Investment by owners = \$60,000
- Unrealized gain on available-for-sale securities = \$90,000
- Foreign currency translation loss = \$20,000

What is the amount that would be reported as comprehensive income?

- A) \$970,000
- B) \$1,020,000
- C) \$1,060,000
- D) \$1,120,000

7. If there was a fire accident resulting in a loss of \$ 115,000 to the company in Jan 2020 and got \$ 100,000 of insurance settlement, the company issued the FS in Mar 2020. For the above transaction the company should

- A) Make only provisions for \$ 115,000 in the 2019 financial statement and no disclosure is required.
- B) Make a provision for \$115,000 in 2019 financial statement and also make disclosure
- C) Make only a disclosure in the notes to financial statement
- D) Make a provision for \$ 15,000 in 2019 financial statement and also make disclosure in the notes to financial statement.

8. Company had provided an amount of \$ 25,000 for the lawsuit in FY 2018 from one of the customers; the company had agreed to settle the case on 10th Feb 2019 with the customer by paying an amount of \$ 29,000 and issued the financial statement on Mar 20th, 2019. The right accounting treatment for this transaction is

- A) Make an additional provision for \$ 4,000 in 2018 financial statement
- B) Make a disclosure in the notes to financial statement
- C) Make provisions of \$ 4,000 in the year 2019
- D) None of the above

9. Financial Statement of the company provides

1. Direct information about the entity's financial position, entity's financial performance and entity's cash flows indirect information about management's performance
2. Indirect information about management's performance

- A) 1 Only
- B) 2 Only
- C) Both 1 & 2
- D) None of the above.

10. AWS Inc. is engaged in the construction of rail tracks. The CEO suggests allocating all of the insurance, property taxes, and supervisory factory labour to construction, but the management accountant disagrees. The management accountant will argue that the indirect costs should be allocated in what way?

- A) The indirect costs should be allocated to the extent of the difference between net realizable value and carrying value.
- B) The indirect costs should be allocated to the extent of proportionate completion.
- C) The indirect costs should be allocated proportionally based on the value of the asset.
- D) The indirect costs should not be capitalized to the rail tracks.

11. The most likely use of an income statement prepared by a business enterprise is its use by which of the following?

- A) Investors interested in the financial performance of the entity.
- B) Labour unions to examine earnings closely as a basis for salary discussions.
- C) Government agencies to formulate tax and economic policy.
- D) Customers to determine a company's ability to provide needed goods and services.

12. The following information is extracted from the records of Silvia Garner Laboratories about marketable securities.

Date of purchase	Jan-1
Acquisition cost	\$25,000
Option premium	\$4,000
Holding cost	\$8,000
Brokerage fees	\$2,000
Market value on Dec-31	\$30,000

Calculate the amount of gain or loss on revaluation to be reported of the income statement as of December 31.

- A) Loss of \$1,000.
- B) Gain of \$3,000.
- C) Gain of \$5,000.
- D) Loss of \$9,000.

13. A company is preparing its financial statements in accordance with U.S. GAAP.

Listed below are select financial data for the company.

- Net income = \$950,000
- Depreciation = \$40,000
- Investment by owners = \$60,000
- Unrealized gain on available-for-sale securities = \$90,000
- Foreign currency translation loss = \$20,000

What is the amount that would be reported as comprehensive income?

- A) \$970,000
- B) \$1,020,000
- C) \$1,060,000
- D) \$1,120,000

14. JT Engineering currently holds two debts: a \$9,000 debt due in 9 months and a \$7,000 debt due in 14 months. JT prepares a classified balance sheet using a 1-year operating cycle.

How should these debts be classified?

- A) All \$16,000 in debt should be classified as current liabilities.
- B) All \$16,000 in debt should be classified as long-term liabilities.
- C) The \$7,000 should be classified as a current liability, and the \$9,000 should be classified as a long-term liability.
- D) The \$9,000 should be classified as a current liability, and the \$7,000 should be classified as a long-term liability.

15. The calculation of comprehensive income includes which of the following?

- A) Operating income
- B) Neither operating income nor distribution to owners
- C) Distribution to owners
- D) Operating income and distribution to owners

16. Wilson Industries holds a number of government securities. \$10,000 of these securities have a one-year maturity date, while \$4,000 have an 18-month maturity date. Wilson prepares a classified balance sheet using a 2-year operating cycle. How should these securities be classified?

- A) All \$14,000 in government securities should be classified as long-term investments.
- B) \$10,000 should be classified as current assets and \$4,000 should be classified as long-term assets.
- C) \$4,000 should be classified as current assets and \$10,000 should be classified as long-term assets.
- D) All \$14,000 in government securities should be classified as current assets.

17. Anders Industries currently holds two debts: an \$11,000 debt due in 12 months and a \$16,000 debt due in 18 months. Anders prepares a classified balance sheet using an 18-month operating cycle.

How should these debts be classified?

- A) \$11,000 should be classified as a current liability, and \$16,000 should be classified as a long-term liability.
- B) \$16,000 should be classified as a current liability, and \$11,000 should be classified as a long-term debt.
- C) All \$27,000 in debt should be classified as long-term liabilities.
- D) All \$27,000 in debt should be classified as current liabilities.

18. In case of discounting operations, the company

- A) Should continue to depreciate the assets of this operation till the asset is disposed
- B) Should not recognise any impairment loss as the asset will be disposed
- C) Should stop depreciation on the assets under discontinued operations
- D) Should ignore the tax on the net income or loss.

19. Mirr, Inc. was incorporated on January 1, year 1, with proceeds from the issuance of \$750,000 in stock and borrowed funds of \$110,000. During the first year of operations, revenues from sales and consulting amounted to \$82,000, and operating costs and expenses totalled \$64,000. On December 15, Mirr declared a \$3,000 cash dividend, payable to stockholders on January 15, year 2. No additional activities affected owners' equity in year 1. Mirr's liabilities increased to \$120,000 by December 31, year 1. On Mirr's December 31, year 1 balance sheet, total assets should be reported at:

- A) \$885,000
- B) \$882,000
- C) \$878,000
- D) \$875,000

20. In Income Statement, what will be total operating expenses based on the following

- General & Administrative expenses - \$ 10,000
- Sales Commission - \$ 15,000
- Audit Fees - \$ 5,000
- Interest Income - \$ 1,000
- Forex Gain from currency transactions - \$ 1,500
- Interest expenses - \$ 2,000

- A) 25,000
- B) 30,000
- C) 32,000
- D) 29,500

21. When accounts receivable decreases during the period under the indirect method:

- A) It will be considered as cash inflow from investing activity.
- B) To convert net income to net cash provided by operating activities, the decrease in accounts receivable must be added to net income.
- C) To convert net income to net cash provided by operating activities, the decrease in accounts receivable must be subtracted from net income.
- D) It will be considered as cash inflow from financing activity.

22. Which of the following would be in the noncash activities section of the statement of cash flows?

- A) Depreciation expense
- B) Gain on sale of equipment
- C) Issuing shares of common stock
- D) Conversion of bonds into common stock

23. How does a corporation recognize a deficit in retained earnings?

- A) As a reduction in paid-in capital
- B) As a reduction in stockholders' equity
- C) As a net loss on the income statement
- D) As a decrease in treasury stock

24. Mike's Ice Cream Shop has 500 shares of stock outstanding at \$1 par value per share. As a reward for a great year, Mike (the majority owner and CEO) is issuing a stock dividend of 300 shares to all shareholders. Current market value of the stock is \$20/share. What are the appropriate accounting entries to record this stock dividend?

- A) Dr. Retained earnings \$6,000, Cr Common stock \$300 Cr. Paid-in Capital \$5,700
- B) Dr. Retained earnings \$6,000, Cr. Paid-in capital \$6,000
- C) Dr. Retained earnings \$6,000, Cr. Common stock \$6,000
- D) Dr. Retained earnings \$300, Cr. Common stock \$300

25. Purpose of cash flow statement is to

- A) Provide detailed information about the entity's cash inflows and outflows.
- B) Disclose information about operating, financing and investing activities.
- C) Help users make assessments / decisions.
- D) All of above.

26. Which of the following is reported under cash flow from financing activities?

- 1. Bonds repaid
- 2. Dividends paid
- 3. Loans received
- 4. Interest received

- A) 1, 2 & 4 only.
- B) 1 and 3 only.
- C) 2 and 3 only.
- D) 1,2& 3 only

27. Based on the stock's par value, a large stock dividend is most similar to a _____; but based on the stock's market value, a large stock dividend is most similar to a _____.

- A) small stock dividend; stock split
- B) stock split; small stock dividend
- C) cash dividend; small stock dividend
- D) stock split; cash dividend

28. Statement of changes in equity shows the changes in

- A) Capital received and retained earnings for an accounting period
- B) Capital received for an accounting period
- C) Capital received and retained earnings for a fiscal period
- D) Retained earnings for a fiscal period

29. Hat Trick Manufacturing reported a net income that was 20% smaller than the reported net cash flow from operations. What is the best explanation?

- A) Hat Trick Manufacturing made a mistake in the preparation of the statement of cash flows or in the net income statement.
- B) Hat Trick Manufacturing did not apply the full disclosure principle.
- C) Hat Trick Manufacturing is in financial distress and approaching bankruptcy.
- D) Hat Trick Manufacturing had items, such as depreciation and amortization, that reduced net income but did not affect cash flows.

30. According to the Integrated Reporting Framework, the primary users of an integrated report are:

- A) External auditors.
- B) International taxing authorities.
- C) Providers of financial capital.
- D) An organization's board of directors.

31. Newman Shoes and Bowman Footwear both decided to write off a specific customer's uncollectible account as a bad debt expense. If Newman Shoes uses the direct write-off method and Bowman Footwear uses the allowance method for uncollectible accounts, what will be the difference in the journal entries for these two companies?

- A) Newman Shoes will record a credit to Bad Debt Expense, whereas Bowman Footwear will record a credit to Allowance for Doubtful Accounts.
- B) Newman Shoes will record a debit to Allowance for Doubtful Accounts, whereas Bowman Footwear will record a debit to Bad Debt Expense.
- C) Newman Shoes will record a debit to Bad Debt Expense, whereas Bowman Footwear will record a debit to Allowance for Doubtful Accounts.
- D) Newman Shoes will record a credit to Allowance for Doubtful Accounts, whereas Bowman Footwear will record a credit to Bad Debt Expense.

32. The beginning inventory for 2021 is overstated. The effects of this error on cost of goods sold for 2021, net income for 2021, and assets on December 31, 2021, respectively, are represented by which of the following options?

- A) Overstatement, understatement, overstatement
- B) Understatement, overstatement, overstatement
- C) Overstatement, understatement, no effect
- D) Understatement, overstatement, no effect

33. What is one disadvantage of the perpetual inventory system?

- A) It is less accurate than a periodic inventory system.
- B) Companies require a longer operating cycle.
- C) Companies must determine the cost of goods sold at the end of a period.
- D) It requires more record keeping than a periodic inventory system.

34. Kate's Company received merchandise on consignment. The company recorded the transaction as a purchase and included the goods in inventory, as of October 31. What would the effect of this be on the financial statements for October 31?

- A) There would be no effect.

- B) The net income, current assets, and current liabilities would all be overstated.
- C) The net income and current liabilities would be overstated.
- D) The net income would be correct and current assets and current liabilities would be overstated.

35. Accounts Receivable is

- A) Reported at gross realizable value
- B) Reported at net realizable value
- C) Reported at lower of cost or Market
- D) All of the above.

36. What amount will be reported on the balance sheet as current assets based on the following information?

Cash - \$ 5,000, Short Term investment of \$ 60,000, Account Receivables of \$ 50,000, Allowance for bad debts of \$ 4,000, Inventory of \$ 25,000, Land & Building of \$ 100,000, Advances received from customers of \$ 10,000, Advances provided to employees of \$ 6,000

- A) 242,000
- B) 252,000
- C) 142,000
- D) 152,000

37. Goods sold at list price of \$200,000 to a customer. They are sold to the customer for list price minus trade discounts of 25% and 10%. The accounts receivable balance if the goods is sold on credit is

- A) 130,000
- B) 135,000
- C) 150,000
- D) 185,000

38. What is one advantage of the periodic inventory system?

- A) It is more accurate than a perpetual inventory system.
- B) Companies can keep a detailed daily record of inventory on hand.
- C) It requires less record keeping than a perpetual inventory system.
- D) Companies can determine the cost of goods sold each time a sale occurs.

39. Assuming no beginning inventory, what is the trend of inventory prices if cost of goods sold computed when inventory is valued using the FIFO method exceeds cost of goods sold when inventory is valued using the LIFO method?

- A) Prices will remain unchanged.
- B) Prices will decrease.
- C) Prices will increase.
- D) The price trend cannot be determined from the information given.

40. When should a typical merchandiser recognize an account receivable?

- A) At the point of sale
- B) When cash is received
- C) When the transaction price is determined
- D) When the contract is signed

41. Global Industries is a merchandising company that sells goods on consignment. Currently, Global has \$14,000 worth of consignment goods in its warehouse that it included in its inventory. What effect will this have on Global's total inventory?

- A) Inventory will be \$14,000 lower than expected.
- B) Inventory will be calculated correctly.
- C) Inventory will be \$14,000 higher than expected.
- D) Inventory will be \$7,000 higher than expected.

42. Choose the correct statement

- A) Under US GAAP for bad debts accounting only Direct Write off method is allowed.
- B) Under US GAAP for bad debts accounting only allowance method is allowed.
- C) Under US GAAP for bad debts accounting both allowances method and Direct Write off method are Permissible.
- D) None of the above.

43. Howe Corporation calculates inventory and cost of goods sold one time at the end of every accounting period. In contrast, Kelty Industries updates their inventory and cost of goods sold accounts multiple times in one day. What is the difference between Howe and Kelty?

- A) Howe uses a manual system of inventory, whereas Kelty uses an automatic system of inventory.
- B) Howe uses a perpetual system of inventory, whereas Kelty uses a periodic system of inventory.
- C) Howe uses a periodic system of inventory, whereas Kelty uses a perpetual system of inventory.
- D) Howe uses an automatic system of inventory, whereas Kelty uses a manual system of inventory.

44. New Haven Products has used LIFO inventory valuation for the life of the company. Each year, their LIFO reserve increases. What can be assumed about the prices of inventory?

- A) Inventory prices have increased each year.
- B) Inventory prices have decreased each year.
- C) Inventory prices have stayed the same each year.
- D) Inventory prices have increased in more years than they have decreased.

45. How is factoring of receivables different from securitization of receivables?

- A) While factoring is appropriate for long-term term accounts receivable, benefits of securitization can be received only on short-term accounts receivables.
- B) In factoring, factors buy receivables and take on the billing and collection functions, whereas securitization is the process of converting illiquid assets into liquid assets by bundling similar receivables into an investment fund.
- C) Companies that use factoring receive cash after the recovery of principal and interest, whereas in securitization, cash is received immediately.
- D) In factoring, sellers of the receivables continue to service the receivables, whereas under securitization, the company ceases to continue any operational activities with the customers.

46. The depreciation per annum if the total cost of machinery is \$ 500,000 having a useful life of 10 years and salvage value of USD 50,000 is

- A) 5,000
- B) 50,000
- C) 4,500
- D) 45,000

47. During June Year 1, Maxwell Corporation determined that actual costs incurred associated with the equipment used in its assembly line significantly exceeded original expected costs. At June 30, Year 1, Maxwell had compiled the following information:

Original cost of the equipment	\$800,000
Accumulated depreciation	\$300,000
Expected net future cash inflows (undiscounted) related to the continued use and eventual disposal of the equipment	\$450,000
Fair value of the equipment	\$375,000

What is the amount of impairment loss that should be reported on Maxwell's income statement prepared for the period ended June 30, Year 1?

- A) \$125,000
- B) \$350,000
- C) \$425,000
- D) \$ 50,000

48. The sum-of-the-years' digits method of depreciation is being used for a machine with a 5-year estimated useful life. What would be the fraction applied to the cost to be depreciated in the second year?

- A) 1/5
- B) 2/15
- C) 4/15
- D) 4/5

49. What are the two steps to determine and measure impairment?

- A) Recoverability Test and Impairment Loss Test.
- B) Recoverability Test and Historical Cost Test.
- C) Recoverability Test and Catastrophic Loss Test.
- D) Impairment Loss Test and Catastrophic Loss Test.

50. Which of the following is a distinguishing feature of the declining balance method of calculating depreciation?

- A) The cost of depreciation is spread evenly over the asset's useful life.

- B) The cost of depreciation is variable depending on how frequently the asset is used.
- C) A larger cost of depreciation is associated with the earlier years of the asset's useful life.
- D) A smaller cost of depreciation is associated with the earlier years of the asset's useful life.

51. Which depreciation method generally results in the lowest net income for the first year a plant asset is utilized?

- A) Units-of-activity, uniform over life of asset
- B) Straight-line
- C) Double declining-balance
- D) 150% declining-balance

52. Once a recoverability test has been performed, how is loss of impairment calculated differently if the asset has a resale value vs. if it does not have a resale value?

- A) The loss of impairment for the asset with a resale value would be calculated based on the difference between the book value and the present value of the future cash flows; the loss of impairment for the asset without a resale value would be calculated based on the difference between the book value and the undiscounted value of the future cash flows.
- B) The loss of impairment for the asset with a resale value would be calculated based on the difference between the book value and the resale value; the loss of impairment for the asset without a resale value would be calculated based on the difference between the book value and the undiscounted value of the future cash flows.
- C) The loss of impairment for the asset with a resale value would be calculated based on the difference between the book value and the undiscounted value of the future cash flows; the loss of impairment for the asset without a resale value would be calculated based on the difference between the book value and the present value of the future cash flows.
- D) The loss of impairment for the asset with a resale value would be calculated based on the difference between the book value and the resale value; the loss of impairment for the asset without a resale value would be calculated based on the difference between the book value and the present value of the future cash flows.

53. What is one distinguishing feature of the straight-line method for calculating depreciation?

- A) It is simple to calculate.
- B) It is the only method used to depreciate land assets.
- C) It uses units of activity rather than time to calculate depreciation.
- D) It is required for tax reporting purposes.

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

- A) \$0
- B) \$10,000
- C) \$20,000
- D) \$30,000

55. The straight-line depreciation method:
- A) Results in the smallest amount of total depreciation expense over the life of the asset
 - B) Is simple to apply
 - C) Results in the largest amount of total depreciation expense over the life of the asset
 - D) Is required by the IFRS
56. A company had a total capitalised cost of \$ 600,000 towards its intangible asset – Patents, which had a legal and useful life of 25 years. The amortization on patent for a year would be
- A) 20,000
 - B) 24,000
 - C) 30,000
 - D) 35,000
57. In January Year 1 Colonial Company purchased equipment for \$120,000, to be used in its manufacturing operations. The equipment was estimated to have a useful life of 8 years, with salvage value estimated at \$12,000. Colonial considered various methods of depreciation and selected the sum-of-the-years' digits method. On December 31, Year 2, the related allowance for accumulated depreciation should have a balance:
- A) \$20,000 greater than under the straight-line method.
 - B) \$2,500 less than under the double-declining balance method.
 - C) \$18,000 greater than under the straight-line method.
 - D) \$2,250 less than under the double-declining balance method.
58. Curry Seasonings has a patented technology for finely grinding spices while maintaining flavour. This has allowed the company to make some of the world's finest spices. However, recently a competitor patented a newer technology that results in the production of more potent spices than Curry's spices. What would you recommend they do to revalue the intangible asset?
- A) Run an impairment loss test by comparing book value to fair value and then a recoverability test.
 - B) Run a recoverability test and then an impairment loss test by comparing book value to fair value.
 - C) Run a recoverability test only.
 - D) Run an impairment loss test by comparing book value to fair value only.
59. A company had purchased an asset for \$ 500,000 with a total useful life of 5 years. Under the Sum of the digits method the depreciation for the 3rd year is
- A) 33,333
 - B) 66,667
 - C) 166,666
 - D) 100,000
60. Which of the following statement is correct
- A) Goodwill is subject to both amortization and impairment test
 - B) Goodwill is only subject to amortization as long as it is not over 20 years
 - C) Goodwill is only subject to impairment test
 - D) All of the above
61. Which of the following would prevent a company from concluding a contract exists for purposes of recognizing revenue?
- A) Both the buyer and seller have the right to unilaterally cancel the contract without compensating the other party.
 - B) The selling price changes based on the amount ordered.
 - C) The seller concludes it is probable that substantially all the transaction prices will be collected sometime after the contract is signed, not at contract signing.
 - D) The buyer has the right to return some, or the entire product purchased.
62. All of the following statements are correct concerning the relationship between revenue recognition and related expense recognition except:
- A) Recognizing the expense of a defined benefit pension plan before a worker retires.
 - B) Recognizing estimated warranty expense for warranties included with the product at the time the underlying product is sold.
 - C) Recognizing the research and development expense that went into the development of a product in the same period as the product is sold.
 - D) Recognizing cost of goods sold at the same time goods are sold.

63. Journal entry for recognising revenue from deferred revenue is
- Dr. Revenue and Cr. Deferred Revenue
 - Dr. Cash and Cr. Revenue
 - Dr. Cash and Cr. Deferred Revenue
 - Dr. Deferred Revenue and Cr. Revenue.
64. All of the following statements are correct concerning the relationship between revenue recognition and related expense recognition except:
- Delaying the recording of depreciation expense on machines not yet placed into service (waiting for installation) in the production of a company's products.
 - Recognizing the value of vacation time earned by employees when it is earned, not when vacation is taken.
 - Estimating and recognizing bad debt expense each period.
 - Recognizing the marketing expense associated with a product as the product is sold.
65. Under revenue recognition standard, which of the following statement is incorrect?
- There are 5 steps approach to be followed to recognise revenue
 - The contract entered with the customers must be always in writing.
 - Revenue is recognised as and when the performance obligations are fulfilled
 - The transaction price in the contract should be allocated between all the identified performance obligations as per US GAAP.
66. Filmore Construction has a 5-year construction contract to build 300 miles of highway for \$2,000,000. The estimated total cost to complete the project is \$900,000. During Year 1, Filmore incurred costs of \$270,000 and completed 75 miles of highway. At the end of Year 2, Filmore incurred total costs of \$540,000 and completed a total of 180 miles of highway. How much revenue would Jackson report in Year 1 and Year 2 assuming the contract does not qualify for revenue recognition over time?
- \$600,000 and \$600,000
 - \$0 and \$0
 - \$500,000 and \$700,000
 - \$400,000 and \$400,000
67. A retail company shipped two orders of the same product on the same day. Shipment A was shipped FOB Destination and Shipment B was shipped FOB Shipping Point. Which of the following statements concerning the recognition of cost of goods sold is correct?
- Cost of goods sold is recorded for both Shipment A and Shipment B when the shipments leave the seller.
 - Cost of goods sold is recognized for Shipment A when the shipment arrives at the buyer and for Shipment B when the shipment leaves the seller.
 - Cost of goods sold is recorded for both Shipment A and Shipment B when the shipments arrive at the buyer.
 - Cost of goods sold is recognized for Shipment A when the shipment leaves the seller and for Shipment B when the shipment arrives at the buyer.
68. On October 1, 20X2, FGH, a newly formed insurance company, received \$120,000 in cash from customers for 12-month insurance policies that take effect on November 1, 20X2. What amount should FGH report in its 20X2 income statement for insurance premium revenue?
- \$20,000
 - \$60,000
 - \$120,000
 - \$0
69. All of the following are conditions for recognizing revenue at a point in time under the FASB's revenue recognition standard except:
- The customer has formally accepted the good or service.
 - Risks and rewards of ownership have transferred to the customer.
 - Title to the asset transfers to the customer when they pay for the asset in full.
 - The entity has an enforceable right to payment.
70. Which of the following statements concerning performance obligations for revenue recognition purposes is not correct?

- A) Materiality of a performance obligation is measured based on an individual contract, not on the organization as a whole.
- B) Performance obligations must be explicitly stated in a contract.
- C) Identification of performance obligations is done from the perspective of the customer.
- D) The existence of multiple performance obligations means revenue could be recognized at multiple times.

71. Jackson Construction has a 4-year construction contract to build 250 miles of highway for \$1,000,000. The estimated total cost to complete the project is \$400,000. During Year 1, Jackson incurred costs of \$120,000 and completed 60 miles of highway. At the end of Year 2, Jackson incurred total costs of \$280,000 and completed a total of 130 miles of highway. How much revenue would Jackson report in Year 2 under the input method and the output method to recognize revenue, respectively, assuming the contract qualifies for revenue recognition over time?

- A) \$700,000 and \$520,000
- B) \$300,000 and \$240,000
- C) \$400,000 and \$280,000
- D) \$250,000 and \$250,000

72. When should revenue from sales be recognized?

- A) When the product is available for sale to the ultimate consumer.
- B) When the entire amount receivable has been collected from the customer and there remains no further warranty liability.
- C) None of these answer choices are correct.
- D) When management decides it is appropriate to do so.

73. A consulting company won a \$20.8 million three-year contract. The contract requires software development, hosting, and maintenance over three years. The total estimated cost of the project is \$17 million, with \$10 million expected in Year 1, \$5 million in Year 2, and \$2 million in Year 3. The billing schedule shows that \$5 million will be billed upon start of the work, and then \$5 million at each year end. At the end of the first year, the actual cost incurred is \$9 million, and total estimated costs are unchanged at \$17 million. Using the percentage-of-completion method, how much revenue should be recognized at the end of the first year?

- A) \$11 million
- B) \$10 million
- C) \$5 million
- D) No revenue

74. Which of the following would not impact the transaction price for revenue recognition purposes?

- A) A discount for paying within a specified time period
- B) A volume discount for purchasing at least a minimum amount of product
- C) A rebate given in return for something from the customer
- D) Expected product returns

75. Big Seller Co. sells a TV and Speaker combination for \$510 dollars. The TV is delivered immediately, and the speakers are shipped to the customer later that week. The TV sells alone for \$380 dollars, and the speakers sell alone for \$190 dollars. How much revenue should Big Seller Co. recognize from the TV when sold as part of the combo?

- A) \$400
- B) \$170
- C) \$340
- D) \$380

SECTION – B

Answer all the questions

(25 Marks)

76. Hercules Company ended its fiscal year on August 31, 2017. The company's adjusted trial balance as of the end of its fiscal year is as shown below.

**HERCULES COMPANY
Adjusted Trial Balance
August 31, 2017**

No.	Account Titles	Debit	Credit
101	Cash	\$10,900	
112	Accounts Receivable	6,200	
157	Equipment	10,600	
167	Accumulated Depr.—Equip.		\$ 5,400
201	Accounts Payable		2,800
208	Unearned Rent Revenue		1,200
301	Owner's Capital		31,700
306	Owner's Drawings	12,000	
404	Service Revenue		42,400
429	Rent Revenue		6,100
711	Depreciation Expense	2,700	
720	Salaries and Wages Expense	37,100	
732	Utilities Expense	10,100	
		<u>\$89,600</u>	<u>\$89,600</u>

Instructions

- (a) Prepare an income statement and an owner's equity statement for the year ended August 31, 2017. Hercules did not make any capital investments during the year. **(4 marks)**
- (b) Prepare a classified balance sheet at August 31, 2017 **(8 marks)**
- (c) Explain the five steps involved in Revenue Recognition? **(5 marks)**
- (d) What are the specific items classified as operating activities, Investment activities and Financing activities in a cash flow? **(8 marks)**

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