AICPA Released Questions from the 2021 Uniform CPA Exam

- Released April 2021 -

FINANCIAL ACCOUNTING & REPORTING

2021 AICPA Released Questions for FAR

The Key gives the correct letter answer for each question.

Key: A

The numbering system indicates the AICPA Blueprint Representative Task and Skill Level for each question.

FAR.CSO.20190701: FAR.001.001.001

FAR.SSO.20190701: Remembering and Understanding:1

MULTIPLE CHOICE - MODERATE

A nongovernmental not-for-profit organization may report on which of the following basis and remain in compliance with generally accepted accounting principles (GAAP)?

A. Cash.

B. Accrual.

C. Modified cash.

D. Modified accrual.

GAAP applies to both for-profit entities and not-for-profit organizations (NPO). Under GAAP, the use of accrual-basis accounting for the preparation of financial statements is required. Accrual accounting recognizes revenues when earned and records expenses when incurred.

The financial statements (F/S) that must be prepared for NPOs parallel the three basic F/S used by private businesses. These statements include the statement of financial position (balance sheet equivalent), statement of activities (income statement equivalent) and the statement of cash flows.

Accrual accounting is **used** and specific guidance related to **NPOs** is provided in ASC 958. For example, recording unconditional pledges to an NPO is recorded by debiting a pledge receivable and crediting contribution revenue. This process is very similar to recording a sale on account earned by a for-profit entity.

Item ID: 53069
Key: B
FAR.CSO.20190701: FAR.001.001.001
FAR.SSO.20190701: Remembering and Understanding:1

LLA, Inc. was capitalized through the issuance of 10,000 shares of $30 par common stock that was sold at $50 per share. LLA had net income as follows:

Year 1	$100,000
Year 2	200,000

If, during Year 2, LLA paid dividends to its shareholders at $25 per share, what amount was LLA's retained earnings balance and shareholders' equity balance at the end of Year 2?

	Retained earnings	Shareholders' equity
A.	$50,000	$550,000
B.	$50,000	$800,000
C.	$300,000	$550,000
D.	$300,000	$800,000

Shareholders' equity consists of preferred and common stock, additional paid-in capital (APIC), retained earnings, accumulated other comprehensive income, and treasury stock. Retained earnings represent earnings accumulated since the inception of the company that have not been paid out to shareholders. Retained earnings are increased by net income and decreased by net losses and dividends paid to shareholders.

All corporations issue common stock, which normally has a par value or stated value. The issue price of the stock is usually greater than the par. This excess goes to APIC.

In this scenario, LLA Inc.'s Year 2 **retained earnings** is **$50,000**, calculated as follows:

Year 1 net income	$ 100,000
Year 2 net income	200,000
Year 2 dividends paid ($25 × 10,000 shares)	(250,000)
Year 2 retained earnings balance	$ 50,000

Meanwhile, LLA Inc.'s total Year 2 **shareholder equity** is **$550,000**, calculated as follows:

Common stock ($30 × 10,000 shares)	$300,000
APIC [($50 – $30) × 10,000 shares]	200,000
Retained earnings (calculated above)	50,000
Year 2 retained earnings balance	$550,000

Item ID: 52897

Key: A

FAR.CSO.20190701: FAR.001.002.004

FAR.SSO.20190701: Application:2

A statement of activities prepared by a nongovernmental not-for-profit organization is most similar to which of the following financial statements prepared by a for-profit entity?

A. Income statement.

B. Balance sheet.

C. Statement of cash flows.

D. Statement of changes in stockholders' equity.

The financial statements (F/S) that must be prepared for a not-for-profit organization (NPO) parallel the three basic F/S used by private businesses. These statements include the statement of financial position (balance sheet equivalent), statement of activities (income statement equivalent) and the statement of cash flows.

The primary purpose of a statement of activities is to demonstrate how the NPO's resources are used in providing its programs and services.

The inflows of resources reported on the statement of activities refer to revenues, gains, and net assets released from restrictions, and the outflows of resources refer to expenses and losses. The difference between these categories is referred to as the change in net assets for the period.

Although NPOs by definition do not report profit or income, the change in net assets is similar to net income as it effectively represents the NPO's operating results for the period. Therefore, the **statement of activities** is most **similar** to an **income statement** of a for-profit entity.

Item ID: 43565
Key: A
FAR.CSO.20190701: FAR.001.003.002
FAR.SSO.20190701: Remembering and Understanding:1

Alpha Co. has $100 billion in assets, $100 billion in revenues, and $10 billion in profits for the current year. There are four operating segments that report directly to the chief operating officer. Which of the following segments is required to present key disclosures?

Segment	Assets (in billions)	Revenues (in billions)	Profits (in billions)
1	$40	$70	$10.5
2	30	16	0.5
3	21	9	(1.5)
4	9	5	0.5

A. Segment 1.

B. Segments 1 and 2.

C. Segments 1, 2, and 3.

D. Segments 1, 2, 3, and 4.

GAAP requires public companies to disclose information in their financial statement notes about significant portions of their businesses called reportable segments. An operating segment represents any group of activities that an entity's chief operating decision makers regularly evaluate as a single unit (ie, management approach).

There are three tests to identify a reportable segment. If a segment contributes at least 10% of the company's revenue, assets, or profits, the segment is reportable, and its results must be separately disclosed by the entity. The profits test is based on the absolute value of the combined segments with profits (ie, segments 1, 2, and 4) or combined segments with losses (ie, segment 3), whichever is greater.

In this scenario, Alpha Co. has $100 billion in assets, $100 billion in revenues, and $11.5 ($10.5 + $0.5 + $0.5) billion in combined operating profits. **Segments 1**, **2**, **3**, meet at least one of the three 10% thresholds to be **reportable**. Segment 4 does not meet any of the 10% thresholds, and therefore is not reportable. Each segment's results are calculated as follows.

Segment	Assets test	Revenue test	Profits test
1	**40%** ($40 billion/$100 billion)	**70%** ($70 billion/$100 billion)	**91%** ($10.5 billion/$11.5 billion)
2	**30%** ($30 billion/$100 billion)	**16%** ($16 billion/$100 billion)	4% ($0.5 billion/$11.5 billion)
3	**21%** ($21 billion/$100 billion)	9% ($9 billion/$100 billion)	**13%** ($1.5 billion/$11.5 billion)
4	9% ($9 billion/$100 billion)	5% ($5 billion/$100 billion)	4% ($0.5 billion/$11.5 billion)

Item ID: 43075
Key: C
FAR.CSO.20190701: FAR.001.004.000
FAR.SSO.20190701: Application:2

A company reports on the cash basis. During the company's first year of business, it had sales on account of $1,000,000, inventory purchases on account of $400,000, and other expenses of $200,000. At the end of the year, the company had accounts receivable, inventory, and inventory related accounts payable of $100,000, $10,000, and $50,000, respectively. What is the company's cash-basis income for its first year of operations?

A. $300,000

B. $350,000

C. $400,000

D. $450,000

Under the cash basis of accounting, revenues are recognized when cash is received, regardless of when they are earned. Expenses are recognized when paid, regardless of when they are incurred. To convert to cash-basis accounting, accrual-basis revenues and expenses are adjusted so that only the portion relating to cash transactions is reported.

In this scenario:

- The company earned $1,000,000 in revenue on account and had $100,000 remaining in accounts receivable at year end. Absent other information, this means $900,000 was collected in cash from those sales and represents the period's cash-basis revenue.
- The company purchased $400,000 of inventory on account and had $50,000 remaining in accounts payable at year end. Absent other information, this means $350,000 of the inventory has been paid for in cash and represents the period's cash-basis cost of sales.
- The company had other expenses of $200,000. No information is provided indicating this expense was paid for on account, therefore it is assumed this was paid for in cash.
- Although ending inventory is $10,000, this amount is included in the $400,000 of inventory purchased. Under cash basis accounting, inventory is expensed when purchased, therefore no adjustment is required.

The company's first year **cash-basis income** is therefore **$350,000,** calculated as follows:

	Cash-basis income	
Sales	$900,000	$1,000,000 – $100,000
Cost of sales	(350,000)	$400,000 – $50,000
Other expenses	(200,000)	
Income	$350,000	

Item ID: 48501

Key: B

FAR.CSO.20190701: FAR.001.006.000

FAR.SSO.20190701: Application:2

A company uses a periodic inventory system and has its cost of ending inventory understated by $4,000. Which of the following describes the effects of this error on the company's current-year's cost of goods sold and net income, respectively?

	Cost of goods sold	Net income
A.	Understated	Understated
B.	Understated	Overstated
C.	Overstated	Understated
D.	Overstated	Overstated

A periodic inventory system is one way to measure inventory quantities. Under the periodic system, no adjustment is made to inventory as it is sold during the year. Instead, the ending inventory balance and COGS are determined at the end of the period, when a physical inventory count is performed.

COGS is calculated as (Beginning inventory + Cost of net purchases for the period – Ending inventory). Therefore, ending inventory has an inverse relationship to COGS. If the cost of ending inventory is understated by $4,000, then mathematically **COGS** is **overstated** by $4,000. Because COGS is a deduction to arrive at net income, if it is overstated by $4,000, then **net income** will be lower or **understated**.

Item ID: 52433
Key: C
FAR.CSO.20190701: FAR.002.003.000
FAR.SSO.20190701: Application:2

On January 1, Lyle Co. purchased a manufacturing facility. After remodeling was completed, the facility was ready for use on March 1. On April 1, production began. Interest costs were incurred as follows:

	January 1 to March 1	March 1 to April 1
Building	$10,000	$5,000
Remodeling	2,000	3,000

What amount of interest should Lyle capitalize during the current year?

A. $10,000

B. $12,000

C. $15,000

D. $20,000

To obtain an accurate cost for certain self-constructed assets, GAAP requires interest to be capitalized during the period an asset is being prepared for its intended use. Examples include certain self-constructed assets and remodeling or construction to a purchased building. The amount capitalized is considered the avoidable interest.

To calculate avoidable interest, the weighted average accumulated expenditures (WAAE) for the capitalization period is compared to the actual interest incurred on the construction debt. The lower of the two interest amounts is capitalized (ie, conservatism principle). In this scenario, only the actual interest costs were provided.

Because the asset was ready to use (ie, production started) on April 1, Lyle Co. should only capitalize the interest incurred from January 1 (acquisition date) to March 31. Accordingly, **$12,000** ($10,000 + $2,000) of **interest** is **capitalized**. Any Interest incurred after March 31 would be expensed.

Item ID: 44547
Key: B
FAR.CSO.20190701: FAR.002.004.000
FAR.SSO.20190701: Application:2

The equity method would be used if a company owned what percentage of its investee company's stock?

A. 5%

B. 15%

C. 25%

D. 75%

The equity method is used to account for investment transactions when the investor has the ability to exercise significant influence, but not a controlling interest, over the operating and financial policies of the investee. In general, the investor is assumed to have this ability when it holds between 20% and 50% of the investee's voting equity stock (ie, common stock).

Controlling interest generally occurs when the investor's ownership exceeds 50%, which requires consolidated reporting. No significant influence generally occurs when the investor's ownership is less than 20%, which requires the adjusted cost method (ie, cost minus impairment losses) to report the investment.

Therefore, if a company owns **25%** of an investee company's stock, the **equity method** would likely be the most appropriate method to account for the **investment**.

Item ID: 52273
Key: C
FAR.CSO.20190701: FAR.002.005.003
FAR.SSO.20190701: Remembering and Understanding:1

Dale Corp. successfully patented a medical diagnostic machine. Five years after receiving the patent, Dale was legally challenged by Bisk Corp., which had a similar machine. Dale spent $600,000 to successfully defend the patent. How should Dale treat the $600,000?

A. Record it as a research and development expense.

B. Create a separate intangible account and amortize it.

C. Debit the patent account and amortize it.

D. Reduce the stockholders' equity by a prior-period adjustment.

A **patent** is **legal protection** that guarantees exclusive rights to a product or process either purchased or developed internally by an entity. These rights are generally granted for 20 years by the U.S. Patent and Trademark Office. Patents are intangible (ie, without physical substance) assets that are amortized over the shorter of the remaining statutory legal or useful life of the patent.

The capitalized cost of a patent includes the legal costs of obtaining it and successfully defending it in court. In this scenario, the **$600,000** of **legal fees** incurred to successfully defend the patent were necessary to realize its future economic benefits. Therefore, Dale Corp. should **capitalize** the legal fees by **debiting** the **patent** and **amortizing** the fees accordingly.

Item ID: 43719
Key: C
FAR.CSO.20190701: FAR.002.006.000
FAR.SSO.20190701: Application:2

Which of the following statements describes the relationship of interest expense related to bonds payable when a discount on bonds payable has been recorded using the effective interest method?

A. Interest expense will be the same each year.

B. Interest expense will decrease each year.

C. Interest expense will increase by the same amount each year.

D. Interest expense will increase by a larger amount each year.

To compensate bondholders for the use of their money, a bond issuer must pay periodic interest. Interest payments equal the bond's face value multiplied by the stated rate and time period. Bond issue prices are expressed as a percentage of face value. A price of less than 100% (eg, at 97) indicates that the bond is issued at a discount. The effective interest method is used to calculate interest expense and amortize the discount at each payment date.

The bond's interest expense equals the periodic interest payment plus the amortized discount. The expense is calculated by multiplying carrying value (CV) by the effective rate and the time period interest is accrued.

If a **bond** is issued at a **discount**, it's initial CV is *less* than its face value. The discount is amortized each period so that CV will ultimately equal its face value. As a result, CV increases each period. Multiplying an increasing CV by a constant interest rate results in an **increasing interest** expense every period. Accordingly, the interest expense **increases** by a **larger amount** each period.

Item ID: 45487
Key: D
FAR.CSO.20190701: FAR.002.008.001
FAR.SSO.20190701: Application:2

Alder Corp. had the following stockholders' equity balances at the beginning of the current year:

Common stock 200,000 shares authorized, $1 par; 15,000 shares issued and outstanding	$15,000
Additional paid-in capital	24,000
Retained earnings	11,000

During the current year, Alder issued 2,000 shares of common stock with a fair value of $35 per share to Terry Brady on a subscription basis. Terry made a down payment of $3,500, but shortly thereafter defaulted on the subscription. What would be the debit to additional paid-in capital if Alder returned the $3,500 to Terry?

A. $73,500

B. $70,000

C. $68,000

D. $66,500

To increase the affordability of stock offerings, a corporation may offer the stock purchase as a stock subscription (ie, allowing payment for the stock over time). A subscription contract is signed by the buyer agreeing to the payment terms (eg, number of shares, subscription period, installment due dates). In general, a down payment is required, installment payments are allowed, and the stock is issued only when payment in full has been received.

When the contract is received and collectability is reasonably assured, the corporation records the subscription as follows:

- Increase (ie, debit) cash and subscriptions receivable (ie, current asset).
- Because stock may not be issued until paid for, a temporary equity account, called common stock subscribed, is credited at par or stated value.
- Any excess amount over par or stated value is credited to additional paid-in-capital (APIC).

When Alder Corp. issued the stock to Terry Brady, Alder would record the following entry:

Cash	3,500	
Subscription receivable [($35 per share × 2,000 shares) – $3,500]	66,500	
Common stock subscribed ($1 per share × 2,000 shares)		2,000
APIC [($35 – $1) per share × 2,000 shares]		68,000

If Terry Brady defaults on the subscription and Alder returns the down payment, the entry will simply be reversed.

Common stock subscribed	2,000	
APIC	**68,000**	
Subscription receivable		66,500
Cash		3,500

Item ID: 43153

Key: C

FAR.CSO.20190701: FAR.002.009.000

FAR.SSO.20190701: Application:2

Nelson Corp. paid $1,000,000 cash to purchase 100% of the outstanding common stock of Orange Corp. on April 1 of the current year. Examination of Orange's assets and liabilities reveals the following:

	Book value	Fair value on April 1
Cash	$100,000	$100,000
Marketable securities	200,000	250,000
Land	50,000	300,000
Accounts payable	75,000	75,000
Stockholder equity	275,000	

Nelson should record what amount of goodwill as a result of this acquisition?

A. $350,000

B. $425,000

C. $725,000

D. $1,000,000

Goodwill is the future economic benefit from assets acquired in a business combination that are not individually identified (eg, workforce knowledge, existing customer relationships). It represents the excess consideration a buyer is willing to pay for a business over the fair value (FV) of the net identifiable assets of the acquired company.

The acquiring company records the acquired company's net identifiable assets at fair value (FV) rather than the carrying value on the acquiree's books. FV is used because it is a more faithful representation of what the acquirer agreed to purchase. Anything paid in excess of the FV of the net identifiable assets (assets minus liabilities) is for the unidentified assets of the business (ie, goodwill).

In this scenario, Nelson Corp. acquired 100% of the outstanding stock of Orange Corp for $1,000,000. The FV of Orange Corp.'s net identifiable assets are $575,000, calculated as follows:

Cash	$100,000
Marketable securities	250,000
Land	300,000
Accounts payable	(75,000)
Net identifiable assets	$575,000

Therefore, Nelson will recognize **$425,000** ($1,000,000 purchase price – $525,000 net identifiable assets) of **goodwill** from the acquisition.

Item ID: 46005
Key: B
FAR.CSO.20190701: FAR.003.002.000
FAR.SSO.20190701: Application:2

Thompson Corp. owned a machine that cost $80,000 and had accumulated depreciation of $50,000, an estimated salvage value of $5,000, and a fair value of $150,000. In January, the machine was damaged by Snow Corp. and became worthless. In October, a court awarded damages of $150,000 against Snow in favor of Thompson. On December 31, the final outcome of the case was awaiting appeal. Thompson's attorney believes Snow's appeal will be denied. What amount should Thompson accrue for this gain contingency on December 31?

A. $0

B. $5,000

C. $125,000

D. $150,000

A **contingent gain or loss** may occur but depends on the outcome of a future event beyond an entity's control. Only probable and estimable contingent losses are accrued in the financial statements (F/S). Contingent gains, including probable and estimable gains, are not recognized until the underlying gain-causing event occurs (ie, is realized). Instead, the nature and amount of the gain is disclosed in the notes to the F/S.

The conflicting treatment between contingent gains and losses is an application of conservatism. In other words, the requirement to recognize expected gains is higher than it is for expected losses. GAAP emphasizes conservatism when dealing with uncertainties because many F/S users prefer the risk of understated, not overstated, net income and net assets.

In this scenario, Snow Corp. is appealing a court decision to pay damages to Thompson Corp. Thompson has a probable contingent gain based on the attorney's opinion that Snow Corp.'s appeal will be denied. However, Thompson **cannot recognize** the **contingent gain**. Thompson will *disclose* the contingent gain in the financial statement notes and *recognize* the gain if and when it is realized (ie, once the appeal is decided).

Item ID: 46477
Key: A
FAR.CSO.20190701: FAR.003.003.000
FAR.SSO.20190701: Application:2

Arctic Corp., located in India, was a wholly-owned foreign subsidiary of Axis Corp. Arctic's primary economic environment was within the country of India. On a limited basis, Axis made transactions with its subsidiary denominated in U.S. dollars. At year end, what would be the functional currency for Arctic?

A. The U.S. dollar.

B. The local currency.

C. Dependent on each transaction.

D. The parent company's currency.

A U.S. corporation may have subsidiaries in foreign countries that have their own currencies. When an entity enters into a transaction that will be settled through the payment or receipt of a foreign currency, it is initially recognized in the functional currency of the entity.

An entity's functional currency is the currency that has the greatest economic impact on an entity's financial performance, usually the local currency. The determining factors include cash flows, sales, expenses, product demand, and financing.

In this scenario, Artic Corp. is a wholly-owned Indian subsidiary of Axis Corp. Arctic conducts a majority of its business in the local Indian currency (ie, primary economic environment) and transacts on a *limited basis* with Axis in U.S. dollars. Arctic's **functional currency** is therefore the **local Indian currency** because most of their transactions are conducted in that currency.

Item ID: 52803
Key: B
FAR.CSO.20190701: FAR.003.005.000
FAR.SSO.20190701: Application:2

Arc Hospital received an unconditional pledge for $1 million, which will be paid in four installments of $250,000 over four years. What amount of pledge revenue should be recognized in the second year?

A. $0

B. $250,000

C. $500,000

D. $1,000,000

An unconditional pledge is a promise to provide resources in the future to a not-for-profit organization (NPO). The amount promised is accrued as a pledge receivable and recorded as revenue in the period pledged if there is a reasonable expectation of collection of the pledged amount (similar to recording accounts receivable). If collection of the pledge will span more than one year, it should be reported using the present value (PV) of the future collections.

In this scenario, Arc Hospital received an unconditional pledge for $1 million, which will be paid in four installments of $250,000 over four years. **Pledge revenue** will be recorded at the PV of $1 million (using an applicable discount rate) in the **year** the **pledge was made**. The difference between the amount pledged and the recognized pledge revenue reflects the time value of money and is reported as a discount (ie, contra account) on the pledge receivable.

In the **second year**, **no pledge revenue** is **recognized**. As payments are received, Arc would debit cash and credit (1) the pledge receivable and (2) *contribution revenue* (not pledge revenue) to reflect the annual amortization of the discount.

Item ID: 52637
Key: A
FAR.CSO.20190701: FAR.003.007.000
FAR.SSO.20190701: Application:2

What measurement focus and basis of accounting should be used by a local government's private-purpose trust fund?

	Measurement focus	Basis of accounting
A.	Current financial resources	Modified accrual
B.	Economic resources	Modified accrual
C.	Current financial resources	Accrual
D.	Economic resources	Accrual

State and local government financial reports are characterized by their measurement focus (ie, what items to report) and basis of accounting (ie, when and how to report items). The economic resources measurement focus requires reporting on all resources obtained and obligations incurred (ie, current and long term). This focus is associated with full accrual accounting. For example, purchasing a computer would require reporting depreciation expense over the multiple periods the entity benefits from the asset.

In contrast, the current financial resources measurement focus is a single-period focus that measures the extent to which financial resources obtained during the period are sufficient to cover costs incurred during that same period. This focus is associated with modified accrual accounting. For example, purchasing a computer would require a one-time expenditure for the full amount of the computer in the period purchased.

How each fund category measures and reports activities can be summarized as follows:

- Governmental funds (eg, special revenue fund) have a budgetary focus and use modified accrual accounting and the current financial resources approach.
- Proprietary funds (eg, enterprise fund) have an operations orientation and use accrual accounting and the economic resources approach.
- **Fiduciary funds** (eg, **private-purpose trust fund**) account for resources that are being held on behalf of others (ie, how a trustee manages assets entrusted to it) . These funds use **accrual accounting** and the **economic resources approach** to determine the net position and changes in net position of those resources.

Item ID: 43023
Key: D
FAR.CSO.20190701: FAR.004.001.002
FAR.SSO.20190701: Remembering and Understanding:1

A local government established a new special revenue fund during the current year. The fund incurred the following transactions:

Purchased new machines - five-year life	$140,000
Paid interest debt	300,000
Paid debt principal	200,000
Paid management salaries	100,000
Purchased office equipment - four-year life	100,000
Paid utilities	50,000
Purchased office supplies (1/2 used up)	20,000

If the unit expects the assets to have **no** salvage value, what amount would be recognized as expenditures for the current year?

A. $910,000

B. $713,000

C. $513,000

D. $450,000

Government entities use three broad categories of funds to account for their activities: governmental, proprietary, and fiduciary. The **governmental funds** category (eg, special revenue fund) focuses on current financial resources and uses a unique system of financial reporting called modified accrual accounting.

Modified accrual accounting combines features from accrual and cash accounting. Under modified accrual accounting, any outflows (ie, costs and expenses) recorded by a governmental fund when liabilities are incurred or when current financial resources are used are referred to as expenditures. For example, the purchase of a fixed asset is simply treated as a current outflow of financial resources; capitalizing assets to match and amortize costs benefiting multiple periods is ignored.

In this scenario, all of the fund's outflows listed would be considered expenditures (ie, current outflows of financial resources). Therefore, the local government's **special revenue fund** will recognize **$910,000** ($140,000 + $300,000 + $200,000 + $100,000 + $100,000 + $50,000 + $20,000) of **expenditures**.

Item ID: 43133
Key: A
FAR.CSO.20190701: FAR.004.004.007
FAR.SSO.20190701: Application:2

MULTIPLE CHOICE - HARD

When a CPA is applying the enhancing qualitative characteristics of useful financial information, it is important for the CPA to remember that

A. Each of the four enhancing qualitative characteristics should be given equal priority.

B. The enhancing qualitative characteristics could compensate for unfaithful representation.

C. Cost is a secondary consideration when applying the enhancing qualitative characteristics.

D. Applying the enhancing qualitative characteristics is an iterative process that does not follow a prescribed order.

FASB has outlined two fundamental (relevance and faithful representation) and four enhancing (comparability, understandability, timeliness, and verifiability) qualitative characteristics for financial information to be useful. To be considered useful, information must have both fundamental characteristics. The enhancing (ie, secondary) characteristics further impact the degree of usefulness to users.

Applying the **enhancing qualitative characteristics** is an **iterative process** that **does not follow** a **prescribed order**. CPAs should maximize each characteristic to the extent possible and use them in conjunction with the other characteristics. In other words, one characteristic isn't more important than the others.

Sometimes, one enhancing qualitative characteristic may be sacrificed to improve another. For example, applying a new financial reporting standard might require temporarily sacrificing some comparability in the financial statements. However, the sacrifice may be necessary in order to improve the long-term understandability of the statements.

Item ID: 502227
Key: D
FAR.CSO.20190701: FAR.001.001.001
FAR.SSO.20190701: Remembering and Understanding:1

The following information is from Mabel Co.'s year-end financial statements for the current and previous years:

	Current year	Previous year
Prepaid expenses	$ 10,000	$ 20,000
Accounts payable	50,000	30,000
Land	250,000	600,000

Land was sold during the current fiscal year for cash resulting in a loss of $40,000. What is Mabel's net adjustment to net income to determine net cash from operating activities?

A. ($70,000)

B. $0

C. $30,000

D. $70,000

The statement of cash flows operating activities section relates to all transactions that do not involve investing or financing. In general, these activities involve producing goods and services and delivering them to customers. This section can be prepared using either the direct or indirect method. The indirect method starts with net income (NI), which is reconciled to net cash flows by adjusting for changes in certain operating accounts (eg, current assets and liabilities), noncash items, and nonoperating items on the balance sheet.

- A decrease in a current asset (eg, prepaid expenses) is a source of cash because all or part of the asset has been used up or converted to cash. The decrease is added to NI.
- An increase in a current liability (eg, accounts payable) is a source of cash because a promise to pay has been incurred instead of paying cash now. The increase is added to NI.
- Cash proceeds from the sale of long-term assets (eg, land) are reported under investing activities. However, the gain or loss on the sale is a nonoperating item, included in NI. To avoid counting the amount twice, a loss is added during the reconciliation.

Mabel Co's **adjustment from net income** to determine **cash flows** from **operating activities** is **$70,000**. This includes the decrease in the prepaid expense (+$10,000 adjustment), the increase in the accounts payable (+$20,000 adjustment) and adding back the loss on the sale of land (+$40,000 adjustment).

Item ID: 42695
Key: D
FAR.CSO.20190701: FAR.001.002.005
FAR.SSO.20190701: Application:2

A company had the following transactions during the year:

Principal payments on notes payable	$48,000
Interest payments on notes payable	8,000
Cash payment to purchase 100 shares of another company's common stock	25,000

What amount is classified as cash outflow for financing activities in the company's statement of cash flows?

A. $48,000

B. $56,000

C. $73,000

D. $81,000

The statement of cash flows provides information about a company's sources and uses of cash. The information is presented in three categories based on the nature of the cash flows: operating, investing, and financing activities. Financing activities involve cash inflows and outflows related to debt and equity transactions.

Equity transactions involve cash inflows and outflows from the owners (eg, issuance of company stock, dividend payments). Typical debt transactions include using proceeds from borrowings to finance the company (eg, bonds payable, notes payable, mortgage payable) and principal repayments of the debt.

In this scenario, the only **financing activity** is the company's principal payment on the note payable of **$48,000**. The interest paid is an operating expense reported in the *operating activities* section. The stock purchase is an investment (ie, equity security) and reported as a cash outflow under the *investing activities* section.

Item ID: 45965
Key: A
FAR.CSO.20190701: FAR.001.002.005
FAR.SSO.20190701: Application:2

At the beginning of the year, Stam Co. had 200,000 shares of common stock issued and outstanding. On March 31, the company issued 40,000 additional shares. On July 1, it declared and distributed a 50% stock dividend and on September 30 repurchased 10,000 shares as treasury stock. What amount of shares should Stam use to calculate basic earnings per share?

A. 287,500

B. 342,500

C. 345,000

D. 360,000

When calculating basic earnings per share, the weighted-average number of shares outstanding (the denominator in the formula) must reflect stock changes that occurred during the reporting period. Additional shares issued must be weighted (ie, prorated) for the portion of the year they were outstanding. Weighting reflects the time period the funds received from the issued shares were available for company use (ie, from the time of issuance).

However, shares issued due to a stock dividend are treated retroactively (as of the beginning of the earliest period presented) since they are issued to existing shareholders. Treasury stock (T/S) is repurchased (but not retired) company stock. Because treasury stock reduces the number of outstanding shares, the weight amount is deducted from the balance of shares.

Stam Co.'s **weighted-average number** of **shares** is **342,500**, calculated below:

Date	Activity	Treatment	Weighted shares	Balance
1/1				200,000
3/31	40,000 shares issued	Weighted for 9 months	40,000 × 9/12 = 30,000	230,000
7/1	50% stock dividend	Retroactive to 1/1	230,000 × 50% = 115,000	345,000
9/30	Repurchased 10,000 shares	Weighted for 3 months	(10,000) × 3/12 = (2,500)	342,500

Item ID: 43243

Key: B

FAR.CSO.20190701: FAR.001.004.000

FAR.SSO.20190701: Application:2

Which of the following adjustments is necessary to convert cash receipts to revenues as reported on an accrual basis?

A. Add beginning accounts receivable to cash receipts from customers.

B. Subtract ending contract liability from cash receipts from customers.

C. Subtract ending accounts receivable from cash receipts from customers.

D. Subtract beginning contract liability from cash receipts from customers.

Cash basis accounting recognizes revenues when cash is received, regardless of when it is earned. Accrual basis accounting recognizes revenue earned during the year, regardless of when the cash is received. To convert from cash basis to accrual basis, several accounts must be adjusted.

For example, when prepayments are received (eg, customer buys a gift card), the entity should record a *contract liability* for the customer's unexercised rights to goods or services. Although cash is received from a customer, this does not represent revenue on an accrual basis. The entity still has a future economic obligation with respect to the contract (ie, still needs to provide goods or services).

Because the prepayments were recorded as revenue when received under cash accounting, the **ending balance** of a **contract liability** account must be **subtracted** from **cash receipts** from **customers** when converting to accrual basis revenue.

Item ID: 43827
Key: B
FAR.CSO.20190701: FAR.001.006.000
FAR.SSO.20190701: Remembering and Understanding:1

Co. exchanged a machine with a fair value of $25,000 for a new machine with a fair value of $20,000 and received $5,000 in cash. The old machine cost $80,000 and had accumulated depreciation of $64,000. The exchange transaction lacked commercial substance. What amount of gain should Jones recognize on the exchange?

A. $0

B. $1,800

C. $7,200

D. $9,000

If a nonmonetary exchange lacks commercial substance, it is not considered a sale (ie, no revenue realization occurs). In general, the asset's carrying value (CV) (adjusted for cash paid or received), not its fair value (FV), is used to record the transaction.

When recording nonmonetary exchanges that lack commercial substance:

- The asset received is generally recorded at the CV of the asset given up plus cash paid or less cash received. However, due to conservatism, the FV of the asset given up (adjusted for any cash) or the FV of the asset received is used to record the asset if a lower value.
- All losses are recognized. However, gains are deferred unless cash is received in the exchange.
- When cash is received, a proportional amount of the gain is recognized because the cash triggers partial revenue recognition. The remaining unrecognized gain is deferred.

In this scenario, Jones Co. gave up a machine with a CV of $16,000 ($80,000 cost − $64,000 accumulated depreciation) in exchange for a machine and cash equaling $25,000 ($20,000 FV of machine + $5,000 cash). Jones has a realized gain of $9,000 ($25,000 − $16,000). Because the exchange lacks commercial substance and Jones received cash in the exchange, Jones **recognizes** a **proportional amount** of the $9,000 **realized gain**, which is **$1,800**, as follows:

$$\frac{\$5{,}000 \text{ cash received}}{\$5{,}000 + \$20{,}000 \text{ FV of machine received}} \times \$9{,}000 \text{ gain} = \$1{,}800 \text{ recognized gain}$$

Item ID: 49037
Key: B
FAR.CSO.20190701: FAR.002.004.000
FAR.SSO.20190701: Application:2

Chatham Co. owned 25% of the voting stock of Boyrum Co. Chatham applied the equity method to account for this investment. Boyrum reported income of $100,000 and paid $30,000 in cash dividends during the period. What amount should Chatham report as investment income?

A. $0

B. $7,500

C. $17,500

D. $25,000

The equity method of accounting is used when the investor has the ability to exercise significant influence over the operating and financial policies of the investee (ie, investor holds between 20%−50% of the investee's stock).

Under the equity method, investors do *not* report their share of the investee's assets and liabilities. Instead, the investor reports its percentage of the investee's net income (loss), even though that amount has not actually been received. The income (loss) is reported on the investor's income statement as equity investment income (loss). Dividends received from the investee are a reduction to the investment account on the balance sheet, not income.

In this scenario, Chatham Co. owns 25% of the voting stock (ie, significant influence) of Boyrum Co. and accounts for the investment under the equity method accordingly. Boyrum reported $100,000 of income for the year, therefore Chatham will report **$25,000** ($100,000 × 25%) of **investment income**. The dividends received will not affect earnings but rather reduce the investment in Boyrum account on Chatham's balance sheet.

Item ID: 46447
Key: D
FAR.CSO.20190701: FAR.002.005.003
FAR.SSO.20190701: Application:2

Grant Co. issued $500,000 face value, five-year, 8% bonds on December 31, Year 1. The bonds pay interest annually and were sold to yield 7%. Present value factors are as follows:

	7%	8%
Present value of $1, five periods	0.712986	0.680583
Present value of ordinary annuity of $1, five periods	4.100197	3.992710
Present value of annuity due of $1, five periods	4.387211	4.312127

What amount of long-term liability should Grant report on December 31, Year 1, for this sale?

A. $500,000

B. $512,777

C. $520,501

D. $531,981

A **bond** is a borrowing agreement in which the issuer promises to repay a certain amount of money (face/par value) to the purchaser, after a certain period of time (term), at a certain interest rate (effective, yield, market rate). Because bond payments occur over multiple years, the bond liability initially recorded will reflect the present value (PV) of the bond principal and interest payments. Specifically, calculating the proceeds from the issuance of bonds occurs as follows:

- PV of the face of the bonds (face × PV of a single sum using the *market rate*)
- PV of the interest as an annuity (face × *stated rate* × time = interest × annuity PV factor at the *market rate*)

In this scenario, Grant Co. issued $500,000 face value, five-year, 8% (ie, stated rate) bonds on December 31, Year 1. The bonds pay interest annually, and were sold to yield 7% (ie, market rate). The annual interest expense is $40,000 ($500,000 face × 8% stated rate). Because payments occur at the *end* of each period, the ordinary annuity factors apply. The **long-term liability** balance of Grant's bonds is **$520,501**, calculated as follows:

PV of principal	$500,000 face value × 0.712986 PV of $1 @ 7%	$356,493
PV of interest	$40,000 interest × 4.100197 PV ordinary annuity @ 7%	164,008
PV of the bonds		$520,501

Item ID: 45489
Key: C
FAR.CSO.20190701: FAR.002.008.001
FAR.SSO.20190701: Application:2

A company has 10,000 shares of common stock issued and 2,000 shares of treasury stock. The par value of the stock is $10 per share. On January 1, Year 1, the company declared a 5% dividend to be paid in cash on June 30, Year 1. What journal entry should the company record on the declaration date?

A. Debit retained earnings for $4,000 and credit dividends payable for $4,000.

B. Debit dividends expense for $4,000 and credit dividends payable for $4,000.

C. Debit dividends expense for $5,000 and credit dividends payable for $5,000.

D. Debit retained earnings for $5,000 and credit dividends payable for $5,000.

When a corporation decides to pay a cash dividend to its shareholders, there are three important dates: date of declaration, record, and payment. The date of declaration is the date the board of directors announce and authorize the future issuance of the dividend. On this date, a dividends payable liability equal to the amount of dividends to be paid is incurred (ie, credited). Retained earnings is decreased (ie, debited) for the same amount.

In this scenario, the company has 10,000 shares of common stock, 2,000 of which are treasury stock. Treasury stock are shares repurchased (but not retired) by the issuing company. The stock is considered authorized and issued but not outstanding. Therefore, no dividends are paid on the treasury stock. The company's dividend will only apply to the 8,000 shares issued that are *not* treasury stock.

Accordingly, on January 1, the declaration date, the company will record the following entry:

Retained earnings (8,000 shares × 5% dividend × $10 per share)	4,000	
Dividends payable		4,000

Item ID: 49251
Key: A
FAR.CSO.20190701: FAR.002.009.000
FAR.SSO.20190701: Application:2

On January 1, Year 1, a company granted some of its key employees stock options for 100,000 shares of $3 par common stock when the fair value of each option was $6 per share. The options vest after three years of service. What is the compensation expense, if any, for the year ended December 31, Year 1?

A. $0

B. $100,000

C. $200,000

D. $600,000

Share-based compensation plans, such as qualified stock options, give an employee the right to purchase a specified number of shares of company stock at a predetermined price for a stated period. The stock options are designed to be part of an employee's compensation and are recognized as the services are performed (ie, matching principle).

GAAP requires share-based transactions with employees to be measured at the fair value (FV) of the equity instrument on the grant date. In this case, the FV of the options is $600,000 (100,000 shares × $6 per share).

When employee options are not immediately exercisable, the total compensation expense is recognized ratably over the vesting period (ie, 3 years). The company will record a **$200,000** ($600,000 / 3) **compensation expense** for the year ended December 31, Year 1 (ie, the first year of the vesting period) and the next two years.

Item ID: 51673
Key: C
FAR.CSO.20190701: FAR.002.011.003
FAR.SSO.20190701: Application:2

Which of the following would create a deferred tax asset?

A. Receiving interest from a municipal bond.

B. Selling equipment on an installment note.

C. Requiring prepayment for service contracts.

D. Using the modified accelerated cost recovery system of depreciation.

When determining taxable income (TI), financial (ie, book) income is adjusted for certain items that are treated differently for tax purposes. A deferred tax asset (DTA) represents a future tax benefit on the balance sheet; it is the cumulative impact of temporary differences that will reverse in the future. A DTA can occur when (1) revenues are currently taxable but will be recognized for book income in future periods or (2) expenses are currently recognized for book income but will be tax deductible in future periods.

For example, an entity **requiring prepayment for service contracts** would result in cash received in advance of providing services to customers. This would create a temporary difference because the cash received would generally be considered taxable revenue, but not GAAP revenue because it has not yet been earned. As a result, this arrangement would result in (1) current TI to be greater than book income and (2) future TI to be less than book income.

If TI in future years is less than book income, the entity will realize future a future benefit on those tax returns. Accordingly, a **deferred tax asset** would be recorded on the balance sheet to reflect the future benefit.

Item ID: 52809
Key: C
FAR.CSO.20190701: FAR.002.012.000
FAR.SSO.20190701: Remembering and Understanding:1

How should a U.S. publicly traded company report a change in fair value of a hedged available-for-sale security attributable to foreign exchange risk if the hedge is a fair value hedge?

A. In earnings.

B. In other comprehensive income.

C. As a contra-asset related to the hedge.

D. As a change in the cost basis of the hedge.

Derivative contracts can be used to hedge against the risk associated with another contract or planned activity. Accounting for changes in the derivative's fair value (FV) depends on whether it is a FV or a cash flow (CF) hedge.

FV hedges are used to reduce the risk of FV changes for recognized assets and liabilities. The hedged item has a fixed value, and the derivative is used to align the fixed value with its FV. The changes in the value of the **FV hedge** are **reported** in **income from continuing operations** to match the exposure with existing positions.

CF hedges are used to reduce the risk of variable CFs from forecasted transactions. The hedged item has CFs based on market rates, and the derivative is used to lock in a fixed interest payment. The changes in the value of the CF hedge are reported in other comprehensive income, not current earnings since they typically involve future transactions or anticipated commitments that could change.

Item ID: 97753
Key: A
FAR.CSO.20190701: FAR.003.004.000
FAR.SSO.20190701: Remembering and Understanding:1

The controller of Pane Co. was preparing the company's financial statements. Pane had a wholly owned subsidiary in a foreign country that used the euro as its currency. At December 31, the exchange rate was $1 U.S. for 1.25 euro. The weighted-average exchange rate for the year was $1 U.S. for 1.50 euro. At December 31, the subsidiary had assets of 1 million euro and revenue for the year of 2 million euro. What amounts would assets and revenue translate for consolidation?

	Assets	Revenue
A.	$666,666	$1,333,333
B.	$666,666	$1,600,000
C.	$800,000	$1,333,333
D.	$800,000	$1,600,000

When a company has a controlling financial interest in a foreign division or subsidiary that will be included in its consolidated financial statements, the foreign entity's financial information must be converted from its local currency (ie, the currency that it maintains its books and records) into the parent's reporting currency.

The process that the reporting entity (ie, parent) will use to convert the financial statements from the local currency (eg, Euros) into the reporting currency (eg, U.S. dollars) depends on the subsidiary's functional currency. Translation is used when the subsidiary's functional currency is also its local currency. An exchange rate should be selected to match its impact on the financial statements and the type of account being translated.

- **Assets and liabilities** use the **current exchange rate**, based on the date of the balance sheet.
- **Income statement** items use a **weighted average exchange rate** (ie, average exchange rate for the entire period being reported).

In this scenario, Pane Co. has a foreign subsidiary that operates in euros. To include the subsidiary's results in the consolidated financial statements, the subsidiary's items must be translated using the exchange rates provided. Pane will translate the foreign subsidiaries financial information as follows:

Item	Translation calculation	Translated amount (US dollars)
Assets	€1,000,000 / 1.25 (December 31 exchange rate)	**$800,000**
Revenue	€2,000,000 / 1.50 (weighted average exchange rate)	**$1,333,333**

Note: Based on the rates provided, the dollar is a stronger currency (ie, it takes more than €1 to equal the spending power of $1). Additionally, because the provided exchange rates were *expressed as how many euros equal $1, the foreign subsidiary's items must be divided (not multiplied) by the exchange rate to be translated.*

Item ID: 52807
Key: C
FAR.CSO.20190701: FAR.003.005.000
FAR.SSO.20190701: Application:2

On January 1, Year 1, a company has capitalized software costs of $1,200,000 related to software that it intends to begin selling in Year 1. The company estimates that the software has an economic life of four years and will generate $3,000,000 of sales and leasing revenue over the next four years. In Year 1, the company earned $1,000,000 in sales and leasing revenue related to the software. What amount of expense should be recognized from amortizing the software costs for the year ended December 31, Year 1?

A. $300,000

B. $350,000

C. $400,000

D. $1,200,000

Amortization of internally developed commercial software is calculated using a two-step process. This process is designed to reflect the software's pattern of generating benefits and to match expenses accordingly.

- Step 1: Amortization is separately calculated with the straight-line method and the relative sales value method. The larger amount (ie, most conservative) is recorded as amortization.
- Step 2: The software's carrying value (CV) is adjusted by subtracting Step 1 amortization. This amount is compared with the software's net realizable value (NRV). NRV is equal to future sales less costs of completion, disposal, and maintenance. If the adjusted CV exceeds the NRV, the excess is included as amortization expense.

In this scenario, step 1 amortization is calculated as follows:

- Straight-line amortization: $400,000 ($1,200,000 CV / 3 years *remaining* useful life).
- Relative sales value amortization: First, the sales ratio is 33.33% ($1,000,000 current sales / $3,000,000 total expected software sales). Then, amortization can be calculated $400,000 ($1,200,000 CV × 33.33%).

Step 1 software **amortization** is the larger of the methods as of December 31, Year 1. In this case, amortization under both methods equals **$400,000**. Because the software's adjusted CV of $800,000 ($1,200,000 − $400,000) is less than its NRV (ie, future sales) of $3,000,000, no additional amortization from Step 2 is applicable.

Item ID: 48503
Key: C
FAR.CSO.20190701: FAR.003.009.000
FAR.SSO.20190701: Application:2

Which of the following is an example of a transaction involving a market participant?

A. A company purchases real estate zoned for recreational use.

B. A company purchases a commercial rental property from a company that is owned by the same shareholders.

C. A judge orders a company to sell machinery during a bankruptcy proceeding.

D. A company sells land to a local government to satisfy an outstanding tax lien.

Fair value is defined as the price received to sell an asset or transfer a liability from an orderly transaction between market participants on a specific date. In this context, market participants refer to buyers and sellers in the principal (or most advantageous) market for the asset or liability that is being sold. Additionally, market participants have the following characteristics:

- They are independent of each other and not related parties.
- They are knowledgeable and have a reasonable understanding about the asset or liability.
- They are *capable* and *willing* to enter into a transaction for the asset or liability

A company that **purchases real estate zoned for recreational use** meets the definition of a **market participant**, as outlined above.

Conversely, purchasing property from a company owned by the same shareholders is not an arms-length transaction between independent parties. Additionally, selling machinery or land to satisfy debts (eg, outstanding tax lien) likely means the parties selling the assets are doing so because they are compelled to, not because they choose to. Additionally, the selling price likely would not reflect the item's fair value as the debt resolution terms (rather than objective, market transactions) are dictating the sale timelines and buyers.

Item ID: 47843
Key: A
FAR.CSO.20190701: FAR.003.011.000
FAR.SSO.20190701: Application:2

At the beginning of Year 2, a government entity had a $500,000 judgment outstanding. The government entity paid $400,000 of the judgment during Year 2. The remaining balance of the judgment includes $25,000 payable early in Year 3 and $75,000 payable at the end of Year 4. What amount should the government entity report as a liability for the judgment in its Year 2 governmental fund financial statements?

A. $500,000

B. $100,000

C. $75,000

D. $25,000

A government entity's governmental funds (eg, general fund) are used to account for the general and administrative activities of the entity. These funds are budgetary in nature and use a unique system of accounting referred to as modified accrual accounting. Modified accrual combines elements of both accrual-basis and cash-basis accounting.

Under modified accrual, governmental fund liabilities are recognized to the extent that they will be paid for with available resources. This generally means that current liabilities are accrued as they are due within the *next year* and will be paid for with *currently available resources*. Conversely, long-term liabilities are likely paid with future, unavailable resources and therefore are *not* accrued.

In this scenario, $100,000 remains unpaid of the government entity's $500,000 outstanding judgement. The entity will **accrue** a **$25,000 liability** in the governmental funds' financial statements (F/S), as the amount due in Year 3 will be paid for primarily with resources already available to the government. The long-term portion of $75,000 would not be accrued within the governmental funds. It would, however, be reported in the government F/S.

Item ID: 43905
Key: D
FAR.CSO.20190701: FAR.004.004.004
FAR.SSO.20190701: Application:2

A county that operates a capital projects fund for infrastructure needs had the following information available on transactions for the current year:

Proceeds from debt issuance	$1,000,000
Transfer from general fund	500,000
Special assessments	400,000
Fees for extra services	100,000

How much would the capital projects fund report as other financing sources for the current year?

A. $500,000

B. $900,000

C. $1,000,000

D. $1,500,000

Governmental funds (eg, capital projects fund) receive resources from a variety of sources. The classification of inflows in the financial statements depends on the source generating it and helps users determine if the inflow was generated from the fund's normal activities. Financial inflows have two major classifications within governmental funds, and include the following:

- Other financing sources include transfers in from other funds as well as the proceeds of long-term borrowings.
- Revenues, by definition, include all other financial inflows. For example, derived tax revenue includes local sales and income taxes.

In this scenario, the county's **other financing sources** total **$1,500,000**, which includes the proceeds from the debt issuance ($1,000,000) and the transfer from the general fund ($500,000). The county's revenues total $500,000, which includes the special assessments ($400,000) and the fees for services ($100,000).

Item ID: 43105
Key: D
FAR.CSO.20190701: FAR.004.004.010
FAR.SSO.20190701: Application:2

TASK BASED SIMULATIONS

Item: **500164**

Scroll down to complete all parts of this task.

Weager Co. is in the process of preparing a cash flow statement for the year ended December 31, year 2, based on the transactions below using the indirect method.

Enter the amounts for the transactions under the appropriate classification. Enter the amount as either a positive or negative value to indicate its effect on the cash flow statement classification, i.e., either an increase or (decrease) to cash flow. If an amount is zero, enter a zero (0).

Ignore any income tax considerations when completing this task.

Weager Co.
For the year ended December 31, year 2
Cash flow statement worksheet

	A	B	C	D	E
1	**Transaction**	**Operating activities**	**Financing activities**	**Investing activities**	**Supplementary disclosure**
2	On July 1, year 2, the company sold a tract of land for $40,000 cash. The land was purchased in year 1 for $33,000 and at the time of sale was assessed at $52,000.	($7,000)	$0	$40,000	$0
3	On May 1, year 2, the company granted 3,000 stock options to its president, vesting equally during the next three years. Each option entitles the president to purchase a share of the company's no par common stock at $8 per share. The fair value of the options was determined to be $27,000 on the date of grant.	$6,000	$0	$0	$0
4	The company sold merchandise to a significant customer in November of year 1 and received cash of $5,000 and a note for $60,000, payable in 95 days. The note was paid when due.	$60,000	$0	$0	$0
5	In September, year 2, the company purchased land and a building. The purchase price consisted of $20,000 cash and 6,000 shares of the company's no par common stock. The fair value of the stock on the closing date of this transaction was $5 per share.	$0	$0	($20,000)	$30,000
6	On December 15, year 2, the company entered into a $1,000,000 five-year unsecured term and revolving credit agreement to support its working capital needs. The company borrowed $200,000 under this agreement and such amount was outstanding at December 31.	$0	$200,000	$0	$0
7	On December 20, year 2, the company paid a cash dividend of $.05 per share to its stockholders. On the record date of the dividend there were 866,000 shares outstanding.	$0	($43,300)	$0	$0

<table>
<tr><th></th><th>A</th><th>B</th><th>C</th><th>D</th><th>E</th></tr>
<tr><td>1</td><td>Transaction</td><td>Operating activities</td><td>Financing activities</td><td>Investing activities</td><td>Supplementary disclosure</td></tr>
<tr><td>2</td><td>On July 1, Year 2, the company sold a tract of land for $40,000 cash. The land was purchased in Year 1 for $33,000 and at the time of sale was assessed at $52,000.</td><td>($7,000)</td><td>$0</td><td>$40,000</td><td>$0</td></tr>
<tr><td></td><td colspan="5">Cash proceeds from the sale of long-term assets (eg, land) are reported under investing activities. However, the gain or loss on the sale is a nonoperating item, included in net income. To avoid counting the same amount twice, a gain is deducted when determining cash flows from operating activities under the indirect method. Weager Co. should therefore report $40,000 as a cash inflow under investing activities and deduct from net income the $7,000 gain ($40,000 cash received – $33,000 purchase price) under operating activities.</td></tr>
<tr><td>3</td><td>On May 1, Year 2, the company granted 3,000 stock to its president, vesting equally during the next three years. Each option entitles the president to purchase a share of the company's no par common stock at $8 per share. The fair value of the options was determined to be $27,000 on the date of grant.</td><td>$6,000</td><td>$0</td><td>$0</td><td>$0</td></tr>
<tr><td></td><td colspan="5">GAAP requires share-based transactions with employees to be measured at the fair value (FV) of the equity instrument on the grant date. When employee options are not immediately exercisable, the total compensation expense is recognized ratably over the vesting period. In this case, Weager recognized a noncash expense of $6,000 [($27,000 FV of options / 3 years vesting period) × 8/12 months] for the options in Year 2. Executive compensation is considered an operating activity, therefore Weager must add back to net income the noncash expense when preparing the statement of cash flows under the indirect method.</td></tr>
<tr><td>4</td><td>The company sold merchandise to a significant customer in November of Year 1 and received cash of $5,000 and a note for $60,000, payable in 95 days. The note was paid when due.</td><td>$60,000</td><td>$0</td><td>$0</td><td>$0</td></tr>
</table>

<table>
<tr><td></td><td colspan="5">Revenue from sales is an operating item reported on the income statement, therefore collections related to sales are an operating activity. Weager would report revenue on an accrual basis in Year 1 from the sale of inventory. In exchange, Weager received $5,000 from the customer in Year 1 and $60,000 in Year 2. Because no accrual basis revenue would be recognized in Year 2, $60,000 would be added back to net income when determining cash flows from operating activities under the indirect method.

Note, the $60,000 note issued by the customer was a promise to pay later for the merchandise received. It is not a loan issued to the customer and therefore would not be considered an investing activity.</td></tr>
<tr><td>5</td><td>In September, Year 2, the company purchased land and a building. The purchase price consisted of $20,000 cash and 6,000 shares of the company's no par common stock. The fair value of the stock on the closing date of this transaction was $5 per share.</td><td>$0</td><td>$0</td><td>($20,000)</td><td>$30,000</td></tr>
<tr><td></td><td colspan="5">The purchase or sale of a long-term asset (eg, land) is an investing activity while the issuance or reacquisition of stock is generally a financing activity. Weager paid $20,000 cash and issued $30,000 worth of stock (6,000 shares × $5 fair value per share) for the land. The cash paid is a use of cash reported in investing activities. However, when Weager issued stock for land, two noncash items were exchanged. Because cash is unaffected, the $30,000 is not reported on the face of the statement of cash flows. Instead, it should be disclosed in the supplementary information of the statement of cash flows or as a separate schedule of significant noncash financing and investing activities. This transaction is still relevant information users would want to be aware of.</td></tr>
<tr><td>6</td><td>On December 15, Year 2, the company entered into a $1,000,000 five-year unsecured term and revolving credit agreement to support its working capital needs. The company borrowed $200,000 under this agreement and such amount was outstanding at December 31.</td><td>$0</td><td>$200,000</td><td>$0</td><td>$0</td></tr>
<tr><td></td><td colspan="5">Proceeds from borrowing on a loan (ie, issuing debt) are a financing activity. Although Weager has a has the option to borrow up to $1,000,000 (ie, revolving credit agreement), it has only borrowed $200,000 as of December 31, Year 2. Only the $200,000 cash borrowed needs to be reported on the statement of cash flows and will be reported as a cash inflow under financing activities.</td></tr>
</table>

	Note, the $800,000 unused line of credit is disclosed in the notes to the financial statements, not the supplementary information of the statement of cash flows.				
7	On December 20, Year 2, the company paid a cash dividend on $.05 per share to its stockholders. On the record date of the dividend there were 866,000 shares outstanding.	$0	($43,300)	$0	$0
	A source of financing for a company is through investors (shareholders). To provide shareholders with a return on their investment, a company pays dividends (a financing activity). Weager should report the cash dividend paid of **$43,300** (866,000 shares × $.05 paid per share) to shareholders as a **cash outflow** under **financing activities**. *Note, dividends received from investments are an operating activity.*				

Blueprint Information

CSO: 001.002.005

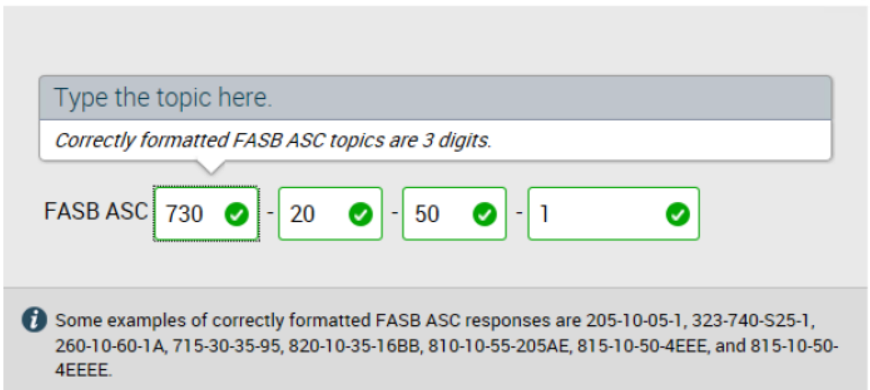
Skill: Application

Representative task: Prepare a statement of cash flows using the indirect method and required disclosures from supporting documentation

Item: **500493**

Windox Co. entered into a contractual arrangement whereby they will perform a research and development project on behalf of Soxco. Which section of the authoritative literature provides primary guidance on disclosure of the contract in the Windox financial statement notes?

Enter your response in the answer fields below. Unless specifically requested, your response should not cite implementation guidance. Guidance on correctly structuring your response appears above and below the answer fields.



Correct answer	FASB ASC 730-20-50-1
Keyword search suggestions	Research and development, arrangements
Solution	730: Research and Development 20: Research and Development Arrangements 50: Disclosure 1: General
Excerpt	An entity that under the provisions of this Subtopic accounts for its obligation under a research and development arrangement as a contract to perform research and development for others shall disclose both of the following: a. The terms of significant agreements under the research and development arrangement (including royalty arrangements, purchase provisions, license agreements, and commitments to provide additional funding) as of the date of each balance sheet presented.

	b. The amount of compensation earned and costs incurred under such contracts for each period for which an income statement is presented.
Other considerations	• Key phrases in a research question can be used to match phrases used in the Codification; searching for those key phrases will usually lead to the correct answer.

Blueprint Information

CSO: 001.002.006

Skill: Application

Representative task: ASC 730-20-50

Item: **505852**

Scroll down to complete all parts of this task.

Pine Co. is in the process of reviewing various transactions that took place during year 4 to determine how certain expenditures should be recorded. The company's property, plant and equipment policy and additional information relating to the transactions are included in the exhibits above.

The staff accountant has prepared a memorandum detailing those items that could affect the year-end financial statements. Review the memorandum and make any necessary changes to the accounting treatment.

To revise the memorandum, click on each segment of underlined text below and select the needed correction, if any, from the list provided. If the underlined text is already correct in the context of the memorandum, select [Original text] from the list. If removal of the entire underlined text is the best revision to the memorandum as a whole, select [Delete text] from the list.

Pine Co.
Year Ended December 31, year 4
Asset Schedule Memorandum – Draft

The company identified the following expenditures incurred during year 4 that could affect the year-end financial statements. The recommended accounting treatments for the transactions are as follows:

Research and Development (R&D) Project:
The company completed construction of a facility in year 4. The facility will be used for a project to test prototypes that will start at the beginning of year 5. The cost of construction was $7 million. For this project, 60% of the facility will be used for prototype testing, and 40% of the facility will be used for storage of prototype materials. At the conclusion of the project, the facility will be used for manufacturing operations for the remainder of its estimated useful life. The costs incurred should be allocated, with 60% of the total cost capitalized and the remaining 40% expensed over the period of construction.

The company also incurred $400,000 for employee wages in year 4 that are directly related to the prototypes. The employee wages should be capitalized and recognized as an expense over the life of the project.

Depreciation Expense Journal Entry:
On December 31, year 3, the company recognized an impairment loss of $200,000 on manufacturing equipment. The manufacturing equipment was acquired on December 31, year 1, for $900,000. The depreciation expense was correctly calculated and recorded for year 4.

Equipment Repair:
The company incurred and paid $6,500 for repairs to a piece of equipment in December, year 4. The repair replaced 25% of the equipment's outer shell. The repairs did not extend its remaining estimated useful life. The $6,500 repair cost should be expensed in year 4.

Assets under Construction:
During the year ended December 31, year 4, the company paid $5,340,000 for assets under construction projects. On June 30, year 4, the construction of an asset was completed and the asset was transferred into the manufacturing equipment account. The manufacturing equipment should be depreciated over three years, with depreciation expense of $1,000,000 recognized in year 4.

Response 1

operations for the remainder of its estimated useful life. The costs incurred should be allocated, with 60% of the total cost capitalized and the remaining 40% expensed over the period of construction.

Choose an option below

- ○ *[Original text]* The costs incurred should be allocated, with 60% of the total cost capitalized and the remaining 40% expensed over the period of construction.
- ○ *[Delete Text]*
- ○ The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in R&D expense until the project is complete.
- ○ The costs incurred should be expensed over the period of construction.
- ○ The costs incurred should be allocated, with 40% of the total cost capitalized and the remaining 60% expensed as incurred.
- ○ The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in cost of goods sold until the project is complete.

RESET CANCEL ACCEPT

Key

operations for the remainder of its estimated useful life. **The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in R&D expense until the project is complete.**

Choose an option below

- ○ *[Original text]* The costs incurred should be allocated, with 60% of the total cost capitalized and the remaining 40% expensed over the period of construction.
- ○ *[Delete Text]*
- ● The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in R&D expense until the project is complete.
- ○ The costs incurred should be expensed over the period of construction.
- ○ The costs incurred should be allocated, with 40% of the total cost capitalized and the remaining 60% expensed as incurred.
- ○ The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in cost of goods sold until the project is complete.

RESET CANCEL ACCEPT

…operations of its estimated useful life. **The costs incurred should be capitalized and depreciated over the estimated useful life of the facility, with depreciation included in R&D expense until the project is complete.**

R&D costs are generally expensed as incurred. The only exception is for the acquisition of fixed assets to be used in research. When such assets have possible future benefits, they should be capitalized initially, and the costs amortized/depreciated into R&D over their useful life.

Pine Co. is constructing this facility initially for the purpose of testing and storing prototypes. Once the prototypes are complete, the project will be used for manufacturing operations for the remainder of its useful life. Because this facility has probable future benefits, all of the **costs incurred** to construct it should be **capitalized** and **depreciated** over the **estimated useful life** of the facility. **Depreciation** should be **included** in **R&D expense** for the period of time the facility is used to ready the prototypes for their intended uses (ie, up until working prototypes exist).

Response 2

prototypes. The employee wages should be capitalized and recognized as an expense over the life of the project.

Choose an option below

- *[Original text]* The employee wages should be capitalized and recognized as an expense over the life of the project.
- *[Delete Text]*
- The employee wages should be capitalized and recognized as an expense over the estimated useful life of the facility.
- The employee wages should be recognized as research and development expenses as incurred.
- The employee wages should be recognized as cost of goods sold.

RESET CANCEL ACCEPT

Key

prototypes. **The employee wages should be recognized as research and development expenses as incurred.**

Choose an option below

- *[Original text]* The employee wages should be capitalized and recognized as an expense over the life of the project.
- *[Delete Text]*
- The employee wages should be capitalized and recognized as an expense over the estimated useful life of the facility.
- (selected) The employee wages should be recognized as research and development expenses as incurred.
- The employee wages should be recognized as cost of goods sold.

RESET CANCEL ACCEPT

...prototypes. **The employee wages should be recognized as research and development expenses as incurred.**
Matching R&D costs to benefits is virtually impossible, since much of the work will result in failure, or the benefits are of indefinite value and duration. As a result of this uncertainty, R&D costs, including employee wages involved in R&D activities, are generally expensed as incurred. Pine Co.'s $400,000 of **wages incurred** all relate to the prototype development. Because the future economic benefits of these outflows are uncertain, the entire **$400,000** will be **expensed** as incurred as **R&D** expense.

Response 3

equipment. The manufacturing equipment was acquired on December 31, year 1, for $900,000. The depreciation expense was correctly calculated and recorded for year 4.

Choose an option below

- ○ *[Original text]* The depreciation expense was correctly calculated and recorded for year 4.
- ○ *[Delete Text]*
- ○ The depreciation expense was incorrectly recorded, so a year 4 credit adjustment to depreciation expense for $150,000 is required.
- ○ The depreciation expense was incorrectly recorded, so a year 4 credit adjustment to depreciation expense for $50,000 is required.
- ○ The depreciation expense was incorrectly recorded, so a year 4 debit adjustment to depreciation expense for $150,000 is required.
- ○ The depreciation expense was incorrectly recorded, so a year 4 debit adjustment to depreciation expense for $50,000 is required.

RESET CANCEL ACCEPT

Key

equipment. The manufacturing equipment was acquired on December 31, year 1, for $900,000. **The depreciation expense was incorrectly recorded, so a year 4 credit adjustment to depreciation expense for $50,000 is required.**

Choose an option below

- ○ *[Original text]* The depreciation expense was correctly calculated and recorded for year 4.
- ○ *[Delete Text]*
- ○ The depreciation expense was incorrectly recorded, so a year 4 credit adjustment to depreciation expense for $150,000 is required.
- ◉ The depreciation expense was incorrectly recorded, so a year 4 credit adjustment to depreciation expense for $50,000 is required.
- ○ The depreciation expense was incorrectly recorded, so a year 4 debit adjustment to depreciation expense for $150,000 is required.
- ○ The depreciation expense was incorrectly recorded, so a year 4 debit adjustment to depreciation expense for $50,000 is required.

RESET CANCEL ACCEPT

…equipment. The manufacturing equipment was acquired on December 31, Year 1, for $900,000. **The depreciation expense was incorrectly recorded, so a Year 4 credit adjustment to depreciation expense for $50,000 is required.**

Impairment of a long-lived asset (eg, equipment) held for use in a business can occur for a variety of reasons (eg, technological advancements). Impairment exists when the carrying value (CV) of an asset is not recoverable and a write-off is required. An impairment loss reduces the CV of the impaired asset.

Pine Co. acquired equipment for $900,000 on 12/31/Year 1 and recorded a $200,000 impairment loss on the equipment on 12/31/Year 3. In *exhibit 2*, Pine's accounting policies for fixed assets disclose straight-line depreciation is used and the useful lives for various assets, including a 6-year useful life for equipment.

Based on the information provided, Pine's depreciation schedule for the manufacturing equipment should be as follows:

Year	Depreciation	Carrying value
12/31/Year 1	Purchased on 12/31/Year 1 (no depreciation)	$900,000
12/31/Year 2	$900,000 / 6-year useful life = $150,000	750,000
12/31/Year 3	$150,000 + $200,000 impairment = $350,000	400,000
12/31/Year 4	$400,000 / 4-year remaining useful life = $100,000	300,000
12/31/Year 5	$100,000	200,000
12/31/Year 6	$100,000	100,000
12/31/Year 7	$100,000	0

In *exhibit 1*, Year 4 depreciation expense of $150,000 was incorrectly recorded for the manufacturing equipment. As seen in the schedule above, depreciation of $150,000 does not account for the impairment loss recognized and is not based on the adjusted Year 4 carrying value of the equipment of $400,000. Because $100,000 of depreciation *should have* been recorded, a **Year 4 credit adjustment** to **depreciation expense** of **$50,000** ($150,000 – $100,000) is required.

Response 4

The $6,500 repair cost should be expensed in year 4.

Choose an option below

- *[Original text]* The $6,500 repair cost should be expensed in year 4.
- *[Delete Text]*
- The $6,500 repair cost should be capitalized and depreciated over the remaining estimated useful life of the equipment.
- The $6,500 repair cost should be allocated, with $1,625 capitalized and depreciated over the remaining estimated useful life of the equipment and $4,875 expensed in year 4.
- The $6,500 repair cost should be allocated, with $3,000 capitalized and depreciated over the remaining estimated useful life of the equipment and $3,500 expensed in year 4.

RESET CANCEL ACCEPT

Key

The $6,500 repair cost should be expensed in year 4.

Choose an option below

- (selected) *[Original text]* The $6,500 repair cost should be expensed in year 4.
- *[Delete Text]*
- The $6,500 repair cost should be capitalized and depreciated over the remaining estimated useful life of the equipment.
- The $6,500 repair cost should be allocated, with $1,625 capitalized and depreciated over the remaining estimated useful life of the equipment and $4,875 expensed in year 4.
- The $6,500 repair cost should be allocated, with $3,000 capitalized and depreciated over the remaining estimated useful life of the equipment and $3,500 expensed in year 4.

RESET CANCEL ACCEPT

...**The $6,500 repair cost should be expensed in Year 4.**

As a company's long-term assets age, they may become less useful. In some cases, companies improve long-term assets by making expenditures to update them. The expenditures may enhance the asset by making it more efficient, giving it new capabilities, or extending its useful life beyond the original estimates. Expenditures of this kind are capitalized and are known as capital improvements.

Expenditures that are not capital improvements are considered repairs and maintenance and are expensed. Repairs and maintenance are expected because they keep an asset in normal working condition; therefore, they are assumed to occur when estimating an asset's useful life. Pine's **$6,500** expenditure to *replace* part of the equipment's outer shell neither enhanced the asset nor extended its useful life. Therefore, the **entire repair cost** should be **expensed** in **Year 4**.

Response 5

into the manufacturing equipment account. The manufacturing equipment should be depreciated over three years, with depreciation expense of $1,000,000 recognized in year 4.

Choose an option below

- ○ *[Original text]* The manufacturing equipment should be depreciated over three years, with depreciation expense of $1,000,000 recognized in year 4.
- ○ *[Delete Text]*
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $500,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $445,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $1,000,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $890,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over three years, with depreciation expense of $890,000 recognized in year 4.

RESET CANCEL ACCEPT

Key

[redacted]

into the manufacturing equipment account. **The manufacturing equipment should be depreciated over six years, with depreciation expense of $500,000 recognized in year 4.**

Choose an option below

- ○ *[Original text]* The manufacturing equipment should be depreciated over three years, with depreciation expense of $1,000,000 recognized in year 4.
- ○ *[Delete Text]*
- ◉ The manufacturing equipment should be depreciated over six years, with depreciation expense of $500,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $445,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $1,000,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over six years, with depreciation expense of $890,000 recognized in year 4.
- ○ The manufacturing equipment should be depreciated over three years, with depreciation expense of $890,000 recognized in year 4.

RESET CANCEL ACCEPT

…into the manufacturing equipment account. **The manufacturing equipment should be depreciated over six years, with depreciation expense of $500,000 recognized in Year 4.**
The capitalized cost of an asset includes not just its purchase price but rather all of the costs to acquire, construct, and prepare it for its intended use. As Pine Co.'s constructed assets are completed, they are transferred to their applicable plant, property, and equipment accounts. The amount transferred represents the capitalized cost of the asset.

Deprecation begins when the assets are placed in to service by the company. Therefore, the date the amounts are transferred (assuming it is the date placed into service) is the date the assets should start depreciating.

In *exhibit 2*, Pine's fixed assets accounting policies disclose that straight-line depreciation is used and provide the useful lives for various assets, including a **6-year useful life** for equipment. In *exhibit 3,* Pine Co.'s assets under construction detail is provided. On 06/30/Year 4, $6,000,000 of constructed assets are transferred to the manufacturing equipment account. Based on the information provided, Pine should report **$500,000** [($6,000,000 / 6 years) × 6/12 months] of **depreciation expense** as of 12/31/Year 4.

Exhibits Information

Exhibits included in this item

1. **Journal Entry**
2. **Accounting Policy**
3. **Assets Under Construction Detail**

Exhibit for Item: **505852**

Exhibit 1: **Journal Entry**

Pine Co. Journal Entry 12/31/year 4			
Account #	**Account name**	**Debit**	**Credit**
7080	Depreciation expense- manufacturing equipment	150,000	
1510	Accumulated depreciation- manufacturing equipment		150,000

Exhibit for Item: **505852**

Exhibit 2: **Accounting Policy**

Pine Co.
Accounting Policy – Property, Plant and Equipment (PPE)
Effective date: January 1, year 4

Policy statement:
This policy is designed to describe the company's guidelines for recording new and existing assets, disposal of assets, and change in assets.

PPE definition and classes:
Capitalized PPE has an economic life in excess of 12 months, is held in the normal course of operations (not for resale), and the cost or value at the time of acquisition exceeds $3,000 (the capitalization threshold). Expenditures to maintain or improve PPE are capitalized if they extend the useful life of the asset. PPE can be acquired through purchase, donation, or self-construction.

The company holds the following classes of PPE:

- Land
- Buildings
- Furniture and fixtures
- Technology equipment
- Manufacturing equipment
- Assets under construction

Roles and responsibilities:
Controller – Responsible for establishing and maintaining an appropriate and adequate PPE accounting system that facilitates accurate presentation in the financial statements.

Assistant Controller – Responsible for ensuring the proper maintenance of the PPE accounting system, including accurate use of general ledger codes, useful life determination, and appropriate capitalization of assets.

Authorization limits:
PPE acquired with a cost in excess of $15,000 requires authorization by both the CFO and the controller. PPE acquired with a cost between $8,000 and $15,000 should be authorized by either the CFO or the controller. PPE with a cost between $3,000 and $8,000 should be authorized by the CFO, the controller, or the assistant controller.

Depreciation policy:
Depreciation is the allocation of the acquisition cost of PPE over its estimated useful life. Depreciation begins in the month subsequent to acquisition of the PPE. A full year of depreciation is recognized in the year of disposition.

Land is not considered to be a depreciable asset because it has an unlimited useful life and the salvage value is generally more than the acquisition cost.

Depreciation for each class of PPE is computed on a straight-line basis over the estimated useful life as follows:

Buildings	40 years
Furniture and fixtures	7 years
Technology equipment	3 years
Manufacturing equipment	6 years

Exhibit for Item: **505852**

Exhibit 3: **Assets Under Construction Detail**

Account: 1000 Assets Under Construction				
Date	**Description**	**Debit**	**Credit**	**Total**
01/01/year 4	Opening balance	12,780,000		12,780,000
02/01/year 4	Payment for capital projects	750,000		13,530,000
02/28/year 4	Payment for capital projects	400,000		13,930,000
04/01/year 4	Payment for capital projects	800,000		14,730,000
05/05/year 4	Payment for capital projects	230,000		14,960,000
06/30/year 4	Transfer of manufacturing equipment to PPE		6,000,000	8,960,000
07/01/year 4	Payment for capital projects	175,000		9,135,000
08/03/year 4	Payment for capital projects	950,000		10,085,000
09/07/year 4	Payment for capital projects	360,000		10,445,000
10/04/year 4	Payment for capital projects	740,000		11,185,000
11/10/year 4	Payment for capital projects	510,000		11,695,000
12/22/year 4	Payment for capital projects	425,000		12,120,000
12/31/year 4	Transfer of building to PPE		7,000,000	5,120,000
12/31/year 4	Closing balance			5,120,000

Blueprint Information

CSO: 002.004.000

Skill: Analysis

Representative task: Reconcile and investigate differences between the subledger and general ledger for property, plant and equipment to determine whether an adjustment is necessary