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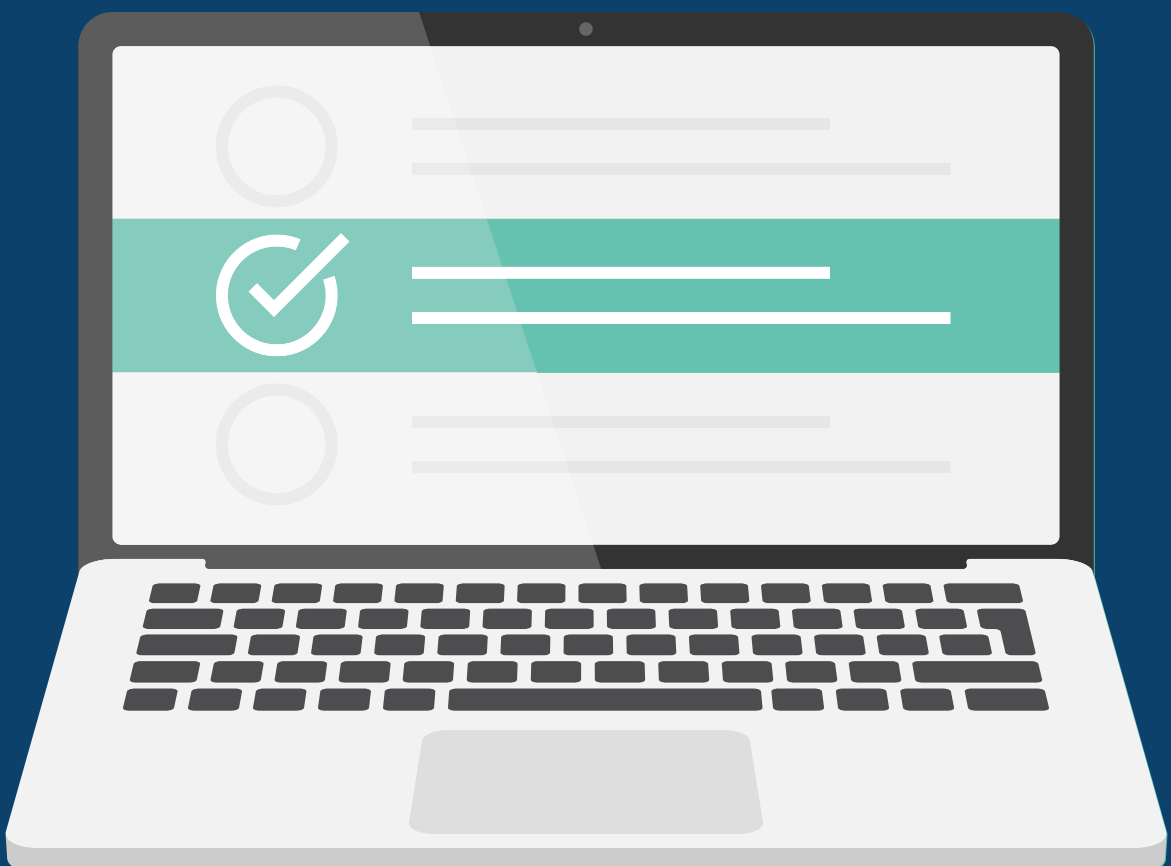

WILEY

AUD QUESTIONS

AUD Question 1.
AICPA.AICPA.120606AUD

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization

A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

AUD Question 2.
AICPA.120608AUD

The controller of a small utility company has interviewed audit firms proposing to perform the annual audit of their employee benefit plan. According to the guidelines of the Department of Labor (DOL), the selected auditor must be

A. The firm that proposes the lowest fee for the work required.
B. Independent for purposes of examining financial information required to be filed annually with the DOL.
C. Included on the list of firms approved by the DOL.
D. Independent of the utility company and NOT relying on its services.

AUD Question 3.
aq.aud.sec.005_2017

Which of the following employment relationships does not impair independence under SEC rules?

A. The Badger audit firm audits ABC Co., a publicly traded company. Tam is on Badger's audit team for the audit. His sister is a direct report of the CFO of ABC.
B. The Otter audit firm audits XYZ Co., a publicly traded company. Tim was on Otter's audit team for the audit last year, but just a few days after last year's audit was completed, Tim severed all ties with Otter and went to work as the controller at XYZ.
C. The Weasel audit firm audits LMN Co., a publicly traded company. LMN's audit cycle runs from January 1 to December 31. Tom was on Weasel's audit team for the 2016 audit. He severed all ties with Weasel on March 1, 2017. Tom went to work in a significant accounting position at LMN on January 2, 2019.
D. The Possum audit firm audits PQR Co., a publicly traded company. Max is lead partner on the PQR audit team. Max's sister Estrella is CFO of PQR. Max and his sister are estranged.

AUD Question 4.
aq.sec.exch.com.001_2017

Which of the following are "covered persons" for purposes of the SEC's independence rules?

A. Sarah, a tax partner at her firm. She gave 15 hours of advice to her firm's audit team regarding the audit of ABC Co.
B. Tory, the chairman and senior partner at Sarah's firm.
C. Burt, the lead partner for the ABC Co. audit at Sarah's firm.
D. All of the options.

AUD Question 5.
AICPA.101018AUD-SIM

Sue's firm was hired to audit a Reno County project that used federal grant money to attempt to create jobs for people on welfare. Sue was in charge of the audit, and her team found many questionable practices. When the chief administrator of Reno County's government heard about Sue's preliminary findings, he called her into his office and told her that her firm would lose every single audit contract it had with every single unit of Reno County government if he was not pleased with Sue's audit report. This is an example of:

A. A potential personal impairment of independence.
B. A potential external impairment of independence.
C. A potential organizational impairment of independence.
D. None of the above.

AUD QUESTIONS

AUD Question 6.
AICPA.130507AUD-SIM

In AICPA professional standards, the word should indicates an (a)

A. Interpretive suggestion that does not constitute a professional requirement.
B. Unconditional requirement with which the auditor is obligated to comply.
C. Presumptively mandatory requirement from which the CPA may depart in rare circumstances.
D. Recommendation that has no authoritative status.

AUD Question 7.
AICPA.130506AUD-SIM

Interpretive publications include all of the following, except for

A. Appendices to Statements on Auditing Standards.
B. Articles in the AICPA's Journal of Accountancy.
C. Auditing guidance included in AICPA Audit and Accounting Guides.
D. Auditing interpretations of the Statements on Auditing Standards.

AUD Question 8.
AICPA.070632AUD

An auditor's engagement letter most likely would include a statement that

A. Lists potential significant deficiencies discovered during the prior-year's audit.
B. Explains the analytical procedures that the auditor expects to apply.
C. Describes the auditor's responsibility to evaluate going-concern issues.
D. Limits the auditor's responsibility to detect errors and fraud.

AUD Question 9.
AICPA.900553AUD-AU

The scope and nature of an auditor's contractual obligation to a client ordinarily is set forth in the

A. Management letter.
B. Scope paragraph of the auditor's report.
C. Engagement letter.
D. Introductory paragraph of the auditor's report.

AUD Question 10.
AICPA.120712AUD

Which of the following procedures would an auditor most likely perform in the planning stage of an audit?

A. Make a preliminary judgment about materiality.
B. Confirm a sample of the entity's accounts payable with known creditors.
C. Obtain written representations from management that there are NO unrecorded transactions.
D. Communicate management's initial selection of accounting policies to the audit committee.

AUD Question 11.
AICPA.020419AUD-AU

An auditor discovered that a client's accounts receivable turnover is substantially lower for the current year than for the prior year.

This may indicate that

A. Fictitious credit sales have been recorded during the year.
B. Employees have stolen inventory just before the year end.
C. The client recently tightened its credit-granting policies.
D. An employee has been lapping receivables in both years.

AUD QUESTIONS

AUD Question 12.
AICPA.930517AUD-AU

The authority to accept incoming goods in receiving should be based on a(an)
A. Vendor's invoice.
B. Materials requisition.
C. Bill of lading.
D. Approved purchase order.

AUD Question 13.
AICPA.920548AUD-AU

Which of the following control procedures would be most likely to assist in reducing control risk related to the existence or occurrence of manufacturing transactions?
A. Perpetual inventory records are independently compared with goods on hand.
B. Forms used for direct material requisitions are prenumbered and accounted for.
C. Finished goods are stored in locked limited-access warehouses.
D. Subsidiary ledgers are periodically reconciled with inventory control accounts.

AUD Question 14.
AICPA.990525AUD-AU

For which of the following matters should an auditor obtain written management representations?
A. Management's cost-benefit justifications for not correcting internal control weaknesses.
B. Management's knowledge of future plans that may affect the price of the entity's stock.
C. Management's compliance with contractual agreements that may affect the financial statements.
D. Management's acknowledgment of its responsibility for employees' violations of laws.

AUD Question 15.
AICPA.940539AUD-AU

An auditor concluded that no excessive costs for idle plant were charged to inventory. This conclusion is most likely related to the auditor's goal of obtaining evidence about which assertion regarding inventory at the end of the period?
A. Valuation and allocation.
B. Completeness.
C. Existence.
D. Rights and obligations.

AUD Question 16.
AICPA.111163AUD

Which of the following conditions or events most likely would cause an auditor to have substantial doubt about an entity's ability to continue as a going concern?

A. Significant related party transactions are pervasive.
B. Usual trade credit from suppliers is denied.
C. Arrearages in preferred stock dividends are paid.
D. Restrictions on the disposal of principal assets are present.

AUD Question 17.
aicpa.aicpa.120606aud

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization
A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

AUD QUESTIONS

AUD Question 18.
AICPA.921125AUD-AU

In planning a statistical sample for a test of controls, an auditor increased the expected population deviation rate from the prior year's rate because of the results of the prior year's tests of controls and the overall control environment.

The auditor most likely would then increase the planned

A. Tolerable rate.
B. Allowance for sampling risk.
C. Risk of assessing control risk too low.
D. Sample size.

AUD Question 19.
AICPA.900543AUD-AU

An auditor is testing internal control procedures that are evidenced on an entity's vouchers by matching random numbers with voucher numbers.

If a random number matches the number of a voided voucher, that voucher ordinarily should be replaced by another voucher in the random sample if the voucher

A. Constitutes a deviation.
B. Has been properly voided.
C. Cannot be located.
D. Represents an immaterial dollar amount.

AUD Question 20.
AICPA.010407AUD-AU

Which of the following characteristics distinguishes electronic data interchange (EDI) from other forms of electronic commerce?
A. EDI transactions are formatted using standards that are uniform worldwide.
B. EDI transactions need not comply with generally accepted accounting principles.
C. EDI transactions are ordinarily processed without the Internet.
D. EDI transactions are usually recorded without security or privacy concerns.

AUD Question 21.
AICPA.901102AUD-AU

King, CPA, was engaged to audit the financial statements of Newton Company after its fiscal year had ended. King neither observed the inventory count nor confirmed the receivables by direct communication with debtors, but was satisfied concerning both after applying alternative procedures.

King's auditor's report most likely contained a(n)

A. Qualified opinion
B. Disclaimer of opinion.
C. Unmodified opinion.
D. Unmodified opinion with an other-matter paragraph.

AUD Question 22.
AICPA.930556AUD-AU

A limitation on the scope of an audit sufficient to preclude an unmodified opinion will usually result when management
A. Is unable to obtain audited financial statements supporting the entity's investment in a foreign subsidiary.
B. Refuses to disclose in the notes to the financial statements related party transactions authorized by the board of directors.
C. Does not sign an engagement letter specifying the responsibilities of both the entity and the auditor.
D. Fails to correct a significant deficiency communicated to the audit committee after the prior year's audit.

AUD QUESTIONS

AUD Question 23.
aicpa.sa.serv.org.user.001_19

A nonissuer uses a service organization whose services are part of the nonissuer's system of internal control. In the integrated audit, how does an auditor evaluate whether the service auditor's report on controls provides sufficient appropriate evidence to support an opinion on internal controls over financial reporting?

A. By inquiring of the service auditor's reputation only from the company's outside attorney.
B. By observing the service auditor to determine the level of knowledge about the entity under audit during the first week of the audit field work.
C. By assessing the results of the tests of controls and the service auditor's opinion on the operating effectiveness of the controls.
D. By performing a background check of the service auditor.

AUD Question 24.
AICPA.950576AUD-AU

An auditor most likely would be responsible for communicating significant deficiencies in the design of internal control structure
A. To the Securities and Exchange Commission when the client is a publicly held entity.
B. To specific legislative and regulatory bodies when reporting under Government Auditing Standards.
C. To a court-appointed creditors' committee when the client is operating under Chapter 11 of the Federal Bankruptcy Code.
D. To shareholders with significant influence (more than 20% equity ownership) when the significant deficiencies conditions are deemed to be material weaknesses.

AUD Question 25.
AICPA.950584AUD-AU

In reporting on an entity's internal control over financial reporting in an integrated audit of a nonissuer, an auditor should include a paragraph that describes the
A. Documentary evidence regarding the control environment factors.
B. Changes in internal control since the prior report.
C. Potential benefits from the auditor's suggested improvements.
D. Inherent limitations of internal control.

BEC QUESTIONS

BEC Question 1.
aicpa.aq.intro.coso.int.ctrl.004_2-18

According to COSO, which of the following components addresses the need to respond in an organized manner to significant changes resulting from international exposure, acquisitions, or executive transitions?
A. Control activities
B. Risk assessment
C. Monitoring activities
D. Information and communication

BEC Question 2.
AICPA.110534BEC-SIM

Which of the following is the best definition of a compensating control?
A. A control that accomplishes the same objective as another control.
B. A condition within an internal control system requiring attention.
C. The targets against which the effectiveness of internal control are evaluated.
D. Metrics that reflect critical success factors.

BEC Question 3.
AICPA.130525BEC-SIM

This component of internal control concerns the policies and procedures that ensure that actions are taken to address the risks related to the achievement of management's objectives.
A. Control activities.
B. Control environment.
C. Monitoring.
D. Risk assessment.

BEC Question 4.
AICPA.130524BEC-SIM

This component of internal control concerns testing the system and its data.
A. Control activities.
B. Control environment.
C. Monitoring.
D. Risk assessment.

BEC Question 5.
AICPA.061219BEC-SIM

Milo Corp. maintains daily backups of its accounting system in a fireproof vault in the file library. Weekly, monthly, and annual backups are stored in a secure, fireproof vault at an off-site location.
Maintenance of the backup files is an example of
A. a detective control.
B. a feedback control.
C. a corrective control.
D. a preventive control.

BEC Question 6.
AICPA.130724BEC

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization
A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

BEC QUESTIONS

BEC Question 7.
AICPA.101142BEC-SIM

The currency or currencies of the Eurodollar market (Euromarket) include(s):

	U.S. Dollar	EEU Euro
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

BEC Question 8.
AICPA.101127BEC-SIM

International trade is measured by a country's

	imports	exports
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

BEC Question 9.
AICPA.101188BEC-SIM

Which one of the following is least likely an advantage associated with a wholly owned foreign subsidiary?
A. Protection of proprietary information.
B. Ability to coordinate activities of the subsidiary with other activities.
C. Ability to maintain quality control.
D. Minimizes capital investment required.

BEC Question 10.
AICPA.101185BEC-SIM

Which of the following statements regarding foreign licensing and foreign franchising, if any, is/are correct?

I. Licensors typically remain more involved with a licensee than a franchisor remains involved with a franchisee.

II. Franchising typically provides greater quality control than does simple licensing.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

BEC Question 11.
AICPA.101150BEC-SIM

In which of the following geographical areas has the greatest decline in share of worldwide output occurred over the past 40 years?
A. U.S.A
B. Europe.
C. Latin America.
D. Asia.

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BEC QUESTIONS

BEC Question 12.
AICPA.150200BEC-SIM

The measurement of the benefit lost by using resources for one purpose and not another is
A. Sunk cost.
B. Opportunity cost.
C. Incremental cost.
D. Differential cost.

BEC Question 13.
AICPA.120638BEC

A company forecast first quarter sales of 10,000 units, second quarter sales of 15,000 units, third quarter sales of 12,000 units and fourth quarter sales of 9,000 units at $2 per unit. Past experience has shown that 60% of the sales will be in cash and 40% will be on credit. All credit sales are collected in the following quarter, and none are uncollectible. What amount of cash is forecasted to be collected in the second quarter?
A. $ 8,000
B. $18,000
C. $26,000
D. $30,000

BEC Question 14.
AICPA.101177BEC-SIM

Which of the following U.S. GAAP levels of inputs for valuation purposes is/are based on observable inputs?

	Level 1	Level 2	Level3
A.	Yes	Yes	Yes
B.	Yes	Yes	No
C.	Yes	No	No
D.	No	No	Yes

BEC Question 15.
AICPA.101195BEC-SIM

Which one of the following is not an element in the capital asset pricing model formula?
A. Risk-free rate of return.
B. Expected rate of return for the class of item being valued.
C. Prime interest rate.
D. A measure of volatility for the item being valued.

BEC Question 16.
AICPA.081215-SIM

Which of the following roles is responsible for prioritizing systems development proposals?
A. IT steering committee.
B. Lead systems analyst.
C. Application programmers.
D. End users.

BEC Question 17.
AICPA.08011636BEC.IV

Which of the following is responsible for identifying problems and proposing initial solutions?
A. IT Steering Committee.
B. Lead systems analyst.
C. Application programmers.
D. End users.

BEC QUESTIONS

BEC Question 18.
AICPA.08011644BEC.IV

In which of the following implementation approaches do the new and old systems run concurrently until it is clear that the new system is working properly?
A. Parallel.
B. Cold turkey.
C. Phased.
D. Pilot.

BEC Question 19.
AICPA.08011640BEC.IV

The requirements definition document is signed at this stage:
A. Planning and feasibility.
B. Analysis.
C. Design and development.
D. Implementation.

BEC Question 20.
sa.hr.pay.cyc.001_17

Billy Bob's BarBQ has a small accounting staff and outsources payroll to a payroll service bureau. Which of the following is least likely to be an advantage of outsourcing payroll?
A. Improved accuracy
B. More accurate time recording by employees
C. Improved segregation of duties
D. Lower fraud risk

BEC Question 21.
AICPA.951145BEC-AR

Gram Co. develops computer programs to meet customers' special requirements. How should Gram categorize payments to employees who develop these programs?

	Direct Costs	Value-adding costs
A.	Yes	Yes
B.	Yes	No
C.	No	No
D.	No	Yes

BEC Question 22.
AICPA.120605BEC

A static budget contains which of the following amounts?
A. Actual costs for actual output.
B. Actual costs for budgeted output.
C. Budgeted costs for actual output.
D. Budgeted costs for budgeted output.

BEC Question 23.
AICPA.060616BEC

Which of the following would be most impacted by the use of the percentage of sales forecasting method for budgeting purposes?
A. Accounts payable.
B. Mortgages payable.
C. Bonds payable.
D. Common stock.

BEC QUESTIONS

BEC Question 24.
AICPA.930546BEC-TH-AR

The basic difference between a master budget and a flexible budget is that a master budget is
A. Based on one specific level of production, and a flexible budget can be prepared for any production level within a relevant range.
B. Only used before and during the budget period, and a flexible budget is only used after the budget period.
C. Based on a fixed standard, whereas a flexible budget allows management latitude in meeting goals.
D. For an entire production facility, whereas a flexible budget is applicable to single departments only.

BEC Question 25.
aicpa.901146BEC-TH-AR

On November 1, Year 1, a company purchased a new machine that it does not have to pay for until November 1, Year 3. The total payment on November 1, Year 3 will include both principal and interest. Assuming interest at a 10% rate, the cost of the machine would be the total payment multiplied by what time value of money concept?
A. Present value of annuity of 1.
B. Present value of 1.
C. Future amount of annuity of 1.
D. Future amount of 1.

FAR QUESTIONS

FAR Question 1.
AICPA.930560FAR-P1-FA

The following information pertains to Jet Corp. outstanding stock for Year 1:

Common stock, $5 par value	
Shares outstanding, 1/1/01	20,000
2-for-1 stock split, 4/1/Year 1	20,000
Shares issued, 7/1/Year 1	10,000
Preferred stock, $10 par value, 5% cumulative	
Shares outstanding, 1/1/Year 1	4,000

What are the number of shares Jet should use to calculate Year 1 earnings per share?
A. 40,000
B. 45,000
C. 50,000
D. 54,000

FAR Question 2.
AICPA.130728FAR

A company had the following outstanding shares as of January 1, year 2:

Preferred stock, $60 par, 4%, cumulative	10,000 shares
Common stock, $3 par	50,000 shares

On April 1, year 2, the company sold 8,000 shares of previously unissued common stock. No dividends were in arrears on January 1, year 2, and no dividends were declared or paid during year 2. Net income for year 2 totaled $236,000. What amount is basic earnings per share for the year ended December 31, year 2?

A. $3.66
B. $3.79
C. $4.07
D. $4.21

FAR Question 3.
AICPA.051177FAR-FA

Which of the following qualifies as a reportable operating segment?
A. Corporate headquarters, which oversees $1 billion in sales for the entire company
B. North American segment, whose assets are 12% of the company's assets of all segments, and management reports to the chief operating officer
C. South American segment, whose results of operations are reported directly to the chief operating officer, and has 5% of the company's as sets, 9% of revenues, and 8% of the profits
D. Eastern Europe segment, which reports its results directly to the manager of the European division, and has 20% of the company's assets, 12% of revenues, and 11% of profits

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FAR QUESTIONS

FAR Question 4.
AICPA.910511FAR-P2-FA

The following information pertains to revenue earned by Timm Co.'s industry segments for the year ending December 31, 2005:

Segment	**Sales to unaffiliated customers**	**Intersegment sales**	Total revenue
Alo	$5,000	$3,000	$8,000
Bix	8,000	4,000	12,000
Cee	4,000	-	4,000
Dil	43,000	16,000	59,000
Combined	60,000	23,000	83,000
Elimination	-	(23,000)	(23,000)
Consolidated	$60,000	-	$60,000

In conformity with the revenue test, Timm's reportable segments were
A. Only Dil.
B. Only Bix and Dil.
C. Only Alo, Bix, and Dil.
D. Alo, Bix, Cee, and Dil.

FAR Question 5.
AICPA.08211234FAR-III

A corporation issues quarterly interim financial statements and uses the lower cost or net realizable value to value its inventory in its annual financial statements. Which of the following statements is correct regarding how the corporation should value its inventory in its interim financial statements?
A. Inventory losses generally should be recognized in the interim statements.
B. Temporary market declines should be recognized in the interim statements.
C. Only the cost method of valuation should be used.
D. Gains from valuations in previous interim periods should be fully recognized.

FAR Question 6.
AICPA.110563FAR-TI

In general, an enterprise preparing interim financial statements should:
A. Defer recognition of seasonal revenue.
B. Disregard permanent decreases in the market value of its inventory.
C. Allocate revenues and expenses evenly over the quarters, regardless of when they actually occurred.
D. Use the same accounting principles followed in preparing its latest annual financial statements.

FAR QUESTIONS

FAR Question 7.
AICPA.901155FAR-P1-FA

Farr Corp. had the following transactions during the quarter ended March 31, 20X5:

Loss on early extinguishment of debt $	70,000
Payment of fire insurance premium for calendar year 20X5	100,000

What amount should be included in Farr's income statement for the quarter ended March 31, 20X5?

	Extinguishment loss	Insurance expense
A.	$70,000	$100,000
B.	$70,000	$25,000
C.	$17,500	$25,000
D.	$0	$100,000

FAR Question 8.
AICPA.100914FAR-OCB-SIM

Financial Statements prepared on a modified cash basis of accounting would contain items measured on which, if either, of the following bases?

	Cash Basis	Accrual Basis
A.	Yes	Yes
B.	Ye	No
C.	No	Yes
D.	No	No

FAR Question 9.
AICPA.100914FAR-OCB-SIM

Which of the following statements, if any, concerning the modified cash basis of accounting is/are correct?

I. The modified cash basis of accounting employs some elements of accrual accounting.

II. To be acceptable, modifications to the cash basis of accounting must have substantial support in practice.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

FAR Question 10.
AICPA.950522FAR-FA
During 2005, Haft Co. became involved in a tax dispute with the IRS.

At December 31, Year 5, Haft's tax advisor believed that an unfavorable outcome was probable. A reasonable estimate of additional taxes was $200,000 but could be as much as $300,000. After the Year 5 financial statements were issued, Haft received and accepted an IRS settlement offer of $275,000.

What amount of accrued liability should Haft have reported in its December 31, Year 5 balance sheet?
A. $200,000
B. $250,000
C. $275,000
D. $300,000

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FAR QUESTIONS

FAR Question 11.
AICPA.901128FAR-P1-FA

Dunn Trading Stamp Co. records stamp service revenue and provides for the cost of redemptions in the year stamps are sold to licensees. Dunn's past experience indicates that only 80% of the stamps sold to licensees will be redeemed. Dunn's liability for stamp redemptions was $6,000,000 at December 31, Year 5. Additional information for Year 6 is as follows:

Stamp service revenue from stamps sold to licensees	$4,000,000
Cost of redemptions (stamps sold prior to 1/1/Y6)	2,750,000

If all the stamps sold in Year 6 were presented for redemption in Year 7, the redemption cost would be $2,250,000. What amount should Dunn report as a liability for stamp redemptions at December 31, Year 6?

A. $7,250,000
B. $5,500,000
C. $5,050,000
D. $3,250,000

FAR Question 12.
AICPA.970509FAR-FA

The market price of a bond issued at a premium is equal to the present value of its principal amount
A. Only, at the stated interest rate.
B. In addition to the present value of all future interest payments, at the stated interest rate
C. Only, at the market (effective) interest rate
D. In addition to the present value of all future interest payments at the market (effective) interest rate

FAR Question 13.
AICPA.090668.FAR.II

A company issues bonds at 98, with a maturity value of $50,000. The entry the company uses to record the original issue should include which of the following?
A. A debit to bond discount of $1,000.
B. A credit to bonds payable of $49,000
C. A credit to bond premium of $1,000
D. A debit to bonds payable of $50,000

FAR Question 14.
AICPA.900536FAR-P1-FA

On July 1, Year 1, Howe Corp. issued 300 of its 10%, $1,000 bonds at 99 plus accrued interest.

The bonds are dated April 1, year 1 and mature on April 1, year 11. Interest is payable semiannually on April 1 and October 1.

What amount did Howe receive from the bond issuance?
A. $304,500
B. $300,000
C. $297,000
D. $289,500

FAR QUESTIONS

FAR Question 15.
AICPA.940546FAR-FA

A bond issued on June 1, Year 1, has interest payment dates of April 1 and October 1. The bond interest expense for the year ended December 31, year 1 is for a period of
A. Three months.
B. Four months.
C. Six months.
D. Seven months.

FAR Question 16.
AICPA.990509FAR-FA
Perk, Inc. issued $500,000, 10% bonds to yield 8%. Bond issuance costs were $10,000.

How should Perk calculate the net proceeds to be received from the issuance?
A. Discount the bonds at the stated rate of interest.
B. Discount the bonds at the market rate of interest.
C. Discount the bonds at the stated rate of interest and deduct bond issuance costs.
D. Discount the bonds at the market rate of interest and deduct bond issuance costs.

FAR Question 17.
AICPA.921137FAR-P1-FA

During Year 2, Lake Co. issued 3,000 of its 9%, $1,000 face value bonds at 101 1/2. In connection with the sale of these bonds, Lake paid the following expenses:

Promotion costs	$ 20,000
Engraving and printing	25,000
Underwriters' commissions	200,000

What amount should Lake record as bond issue costs to be amortized over the term of the bonds?
A. $0
B. $220,000
C. $225,000
D. $245,000

FAR Question 18.
AICPA.950519FAR-FA

On July 1, Year 5, Eagle Corp. issued 600 of its 10%, $1,000 bonds at 99 plus accrued interest. The bonds are dated April 1, Year 5 and mature on April 1, Year 15. Interest is payable semiannually on April 1 and October 1.

What amount did Eagle receive from the bond issuance?

A. $579,000
B. $594,000
C. $600,000
D. $609,000

FAR Question 19.
AICPA.090205FAR-SIM

For accounting purposes, a hedge to offset the risk of exchange rate changes on a planned transaction would be classified as the hedge of:
A. A firm commitment.
B. A forecasted transaction.
C. A recognized asset.
D. An unrecognized asset.

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FAR QUESTIONS

A hedge to offset the risk of exchange rate changes on a planned transaction would be the hedge of a forecasted transaction. A forecasted transaction is a non-firm, but planned or expected transaction that will be denominated in a foreign currency.

FAR Question 20.
AICPA.090206FAR-SIM
Which of the following statements concerning foreign currency hedging is/are correct?

I. The item being hedged is denominated in a foreign currency.

II. The item being hedged must be recorded on the entity's books in order to be hedged.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

FAR Question 21.
AICPA.090208FAR-SIM

What group currently writes the Generally Accepted Accounting Principles?
A. Internal Revenue Service.
B. Securities and Exchange Commission.
C. Financial Accounting Foundation.
D. Financial Accounting Standards Board.

FAR Question 22.
AICPA.090230FAR-SIM

Tramco has a debt investment classified as available-for-sale which is denominated in 80,000 units of a foreign currency. In order to hedge its investment, Tramco acquired a forward exchange contract for 100,000 units of the foreign currency in which its investment is denominated. During the year, the value of the investment decreased $9,000 and the value of the forward contract increased by $10,000. For the year, which one of the following amounts should Tramco recognize from the forward contract as hedging (offsetting) the decrease in value of the investment?

A. $-0-
B. $8,000
C. $9,000
D. $10,000

FAR Question 23.
AICPA.090274FAR-SIM

Which one of the following would constitute a highly inflationary economy when determining the functional currency of a foreign entity?
A. 20% inflation for each of the past 5 years.
B. 30% inflation for each of the past 3 years.
C. 35% inflation for each of the past 3 years.
D. 20%, 35%, and 40% inflation, respectively, for each of the past 3 years.

FAR QUESTIONS

FAR Question 24.
AICPA.090276FAR-SIM

In which one of the following independent circumstances would the local foreign currency of a country likely be the functional currency for a subsidiary of a U.S. entity located in that country?

A. The economy of the foreign country in which the subsidiary is located has experienced 40% inflation for each of the last three years.
B. The subsidiary's operation is financed principally with dollars provided by the parent.
C. The subsidiary's operation is self-contained, and generates and expends cash primarily in the local foreign currency.
D. The subsidiary's operation is a direct extension of the parent's operation.

FAR Question 25.
AICPA.101220FAR-SIM

Layton City received a $20,000,000 federal grant to finance the construction of Charley's Place, a residential treatment center for the rehabilitation of drug and alcohol addicts. The proceeds for this grant should be accounted for in the:

A. General Fund.
B. Permanent Trust Fund.
C. Special Revenue Fund.
D. Capital Projects Fund.

REG QUESTIONS

REG Question 1.
AICPA.940519REG-AR

A tax return preparer may disclose or use tax return information without the taxpayer's consent to

A. Facilitate a supplier's or lender's credit evaluation of the taxpayer.
B. Accommodate the request of a financial institution that needs to determine the amount of taxpayer's debt to it, to be forgiven.
C. Be evaluated by a quality or peer review.
D. Solicit additional nontax business.

REG Question 2.
AICPA.931101REG-BL

Beckler & Associates, CPAs, audited and gave an unqualified opinion on the financial statements of Queen Co. The financial statements contained misstatements that resulted in a material overstatement of Queen's net worth. Queen provided the audited financial statements to Mac Bank in connection with a loan made by Mac to Queen.

Beckler knew that the financial statements would be provided to Mac. Queen defaulted on the loan. Mac sued Beckler to recover for its losses associated with Queen's default.

Which of the following must Mac prove in order to recover?

I. Beckler was negligent in conducting the audit.

II. Mac relied on the financial statements.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

REG Question 3.
AICPA.970501REG-BL

Which of the following statements is generally correct regarding the liability of a CPA who negligently gives an opinion on an audit of a client's financial statements?

A. The CPA is only liable to those third parties who are in privity of contract with the CPA.
B. The CPA is only liable to the client.
C. The CPA is liable to anyone in a class of third parties who the CPA knows will rely on the opinion.
D. The CPA is liable to all possible foreseeable users of the CPA's opinion.

REG Question 4.
AICPA.951108REG-BL

Under the "Ultramares" rule, to which of the following parties will an accountant be liable for negligence?

Parties in privity
Foreseen parties

A. Yes Yes
B. Yes No
C. No Yes
D. No No

REG QUESTIONS

REG Question 5.
type.contract.sa.001_0819

Which of the following will make a contract voidable?
A. There is only a unilateral promise.
B. The subject matter is illegal.
C. One of the parties lacks capacity.
D. The contract was required to be in writing and is oral.

REG Question 6.
rights.part.sa.001_0819

Under agency law, which of the following statements best describes ratification?
A. A principal's affirmation of an agent's authorized act
B. A principal's affirmation of an agent's unauthorized act
C. A principal's approval in advance of an agent's acts
D. A principal's disavowal of an agent's unauthorized act

REG Question 7.
rights.part.sa.001_0819

Jack Davis borrowed $360,000 from First Bank. First Bank required three sureties for the loan. The following parties agreed to act as a surety for Davis in the following amounts: Ames—$300,000, Barclay—$180,000, and Charles—$240,000. After paying $60,000, Davis has defaulted on the loan. Charles's debts have been discharged in bankruptcy. Ames paid First Bank the $300,000 that was due. How much must Barclay pay to Ames?
A. Barclay does not owe Ames anything because First Bank can choose whichever surety it wants and collect the full amount, which releases Barclay.
B. Barclay owes his full pledge of $180,000 because of the bankruptcy of Charles.
C. Barclay owes Ames $112,500.
D. Barclay owes $66,667 to Ames.

REG Question 8.
AICPA.941148REG-BL

Which of the following facts will result in an offering of securities being exempt from registration under the Securities Act of 1933?
A. The securities are non-voting preferred stock.
B. The issuing corporation was closely held prior to the offering.
C. The sale or offer to sell the securities is made by a person other than an issuer, underwriter, or dealer.
D. The securities are AAA-rated debentures that are collateralized by first mortgages on property that has a market value of 200% of the offering price.

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REG QUESTIONS

REG Question 9.
AICPA.060250REG-AR_2-18

Fred Zorn died on January 5, 2018, bequeathing his entire $2,000,000 estate to his sister, Ida.

The alternate valuation date was validly elected by the executor of Fred's estate. Fred's estate included 2,000 shares of listed stock for which Fred's basis was $380,000.

This stock was distributed to Ida nine months after Fred's death.

Fair market values of this stock were:

At the date of Fred's death	$400,000
Six months after Fred's death	450,000
Nine months after Fred's death	480,000

Ida's basis for the stock is:
A. $380,000
B. $400,000
C. $450,000
D. $480,000

REG Question 10.
AICPA.901129REG-P2-AR

Fred Berk buys a plot of land with a cash payment of $40,000 and a purchase-money mortgage of $50,000. In addition, Berk pays $200 for a title insurance policy.

Berk's basis in this land is

A. $40,000
B. $40,200
C. $90,000
D. $90,200

REG Question 11.
AICPA.931150FAR-P2-AR

Lee inherits a partnership interest from Dale. The adjusted basis of Dale's partnership interest is $50,000, and its fair market value on the date of Dale's death (the estate valuation date) is $70,000.

What was Lee's original basis for the partnership interest?

A. $70,000
B. $50,000
C. $20,000
D. $0

REG QUESTIONS

REG Question 12.
AICPA.120704REG

In the current year, Fitz, a single taxpayer, sustained a $48,000 loss on Code Sec. 1244 stock in JJJ Corp., a qualifying small business corporation, and a $20,000 loss on Code Sec. 1244 stock in MMM Corp., another qualifying small business corporation. What is the maximum amount of loss that Fitz can deduct for the current year?

A. $50,000 capital loss
B. $68,000 capital loss
C. $18,000 ordinary loss and $50,000 capital loss
D. $50,000 ordinary loss and $18,000 capital loss

REG Question 13.
AICPA.010508REG-AR

Which of the following costs is not included in inventory under the Uniform Capitalization rules for goods manufactured by the taxpayer?

A. Research
B. Warehousing costs
C. Quality control
D. Taxes excluding income taxes

REG Question 14.
ITAX-0034B_0319

John Budd is single, with no dependents. During 2019, John received wages of $11,000 and state unemployment compensation benefits of $2,000. He had no other source of income. The amount of state unemployment compensation benefits that should be included in John's 2019 adjusted gross income is

A. $2,000.
B. $1,000.
C. $ 500.
D. $0.

REG Question 15.
AICPA.911156REG-P2-AR_0319

Ola Associates is a limited partnership engaged in real estate development. Hoff, a civil engineer, billed Ola $40,000 in 2018 for consulting services rendered.

In full settlement of this invoice, Hoff accepted a $15,000 cash payment plus the following:

	Fair market value	Carrying amount on Ola's books
3% limited partnership interest in Ola	$10,000	N/A
Surveying equipment	7,000	$3,000

What amount should Hoff, a cash-basis taxpayer, report in his 2018 return as income for the services rendered to Ola?

A. $15,000
B. $28,000
C. $32,000
D. $40,000

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REG QUESTIONS

REG Question 16.
CTAX0013B

A corporation's penalty for underpaying federal estimated taxes is

A. Not deductible.
B. Fully deductible in the year paid.
C. Fully deductible if reasonable cause can be established for the underpayment.
D. Partially deductible.

REG Question 17.
AICPA.090831REG-SIM

H and W are married citizens. All of their real and personal property is owned as tenants by the entirety or as joint tenants with right of survivorship. The gross estate of the first spouse to die:

A. Includes only the property acquired by the deceased spouse.
B. Is governed by federal tax provisions rather than community property laws.
C. Includes one third of all real estate as the dower right of the first spouse to die.
D. Includes half of the value of all the property owned regardless of which spouse furnished the original consideration.

REG Question 18.
aicpa.sa.corp.income.002_19

Hook Corp., a calendar-year C corporation, reported the following year 2 financial information:

Net income per books	$210,000
Federal income taxes per books	114,000
Tax depreciation in excess of book depreciation	66,000
Charitable contributions per books	46,000

What is Hook's taxable income?

A. $390,000
B. $273,600
C. $229,500
D. $212,000

REG Question 19.
AICPA.910547REG-P2-AR_1808

The corporate dividends-received deduction

A. Must exceed the applicable percentage of the recipient shareholder's taxable income.
B. Is affected by a requirement that the investor corporation must own the investee's stock for a specified minimum holding period.
C. Is unaffected by the percentage of the investee's stock owned by the investor corporation.
D. May be claimed by S corporations.

REG QUESTIONS

REG Question 20.
AICPA.900534REG-P2-AR_0319

John Budd is the sole stockholder of Ral Corp., an accrual basis taxpayer engaged in wholesaling operations. Ral's retained earnings at January 1, 2019, amounted to $1,000,000.

For the year ended December 31, 2019, Ral's book income, before federal income tax, was $300,000. Included in the computation of this $300,000 were the following:

Dividends received on 500 shares of stock of a taxable domestic corporation that had 1,000,000 shares of stock outstanding (Ral had no portfolio indebtedness)	$ 1,000
Loss on sale of investment in stock of unaffiliated corporation (this stock had been held for two years; Ral had no other capital gains or losses)	(5,000)
Keyman insurance premiums paid on Budd's life (Ral is the beneficiary of this policy)	3,000
Group term insurance premiums paid on $10,000 life insurance policies for each of Ral's four employees (the employees' spouses are the beneficiaries)	4,000
Amortization of cost of acquiring a perpetual dealer's franchise (Ral paid $48,000 for this franchise on July 1, 2018, and is amortizing it over a 48-month period)	6,000
Contribution to a recognized, qualified charity (this contribution was authorized by Ral's board of directors in December 2019, to be paid on January 31, 2020)	75,000

With regard to Ral's contribution to the recognized, qualified charity, Ral
A. Can elect to deduct in its 2019 return any portion of the $75,000 that does not exceed the deduction ceiling for 2019.
B. Cannot deduct any portion of the $75,000 in 2019 because the contribution was not paid in 2019.
C. Can deduct the entire $75,000 in its 2019 return because Ral reports on the accrual basis.
D. Can elect to carry forward indefinitely any portion of the $75,000 not deducted in 2019 or 2020.

REG Question 21.
OTAX-0045B

If an exempt organization is a corporation, the tax on unrelated business taxable income is
A. Computed at corporate income tax rates.
B. Computed at rates applicable to trusts.
C. Credited against the tax on recognized capital gains.
D. Abated.

REG QUESTIONS

REG Question 22.
AICPA.931160REG-P2-AR_0319

On June 30, 2018, Berk retired from his partnership.

At that time, his capital account was $50,000 and his share of the partnership's liabilities was $30,000. Berk's retirement payments consisted of being relieved of his share of the partnership liabilities and receipt of cash payments of $5,000 per month for 18 months, commencing July 1, 2018.

Assuming Berk makes no election with regard to the recognition of gain from the retirement payments, he should report income therefrom of

	2019	2020
A.	$13,333	$26,667
B.	$20,000	$20,000
C.	$40,000	$40,000
D.	$0	$40,000

A. Row A
B. Row B
C. Row C
D. Row D

REG Question 23.
aicpa.sa.trans.part.001_19

Danson and Ellerby are equal partners in DE Partnership, which is in the business of selling fine art. DE owns assets with a tax basis and fair market value of $240,000. In January of the current year, Finley contributes to the partnership some personal investment art with a fair market value of $120,000 (tax basis $80,000) to become a one third partner in the new DEF partnership. In October of the current year, DEF sells the art received from Finley for $141,000. What amount of gain from the sale of the artwork should be allocated to Finley?
A. $7,000
B. $20,333
C. $40,000
D. $47,000

REG Question 24.
AICPA.911124REG-P2-AR

The standard deduction for a trust or an estate in the fiduciary income tax return is
A. $0
B. $650
C. $750
D. $800

REG Question 25.
AICPA.910537REG-P2-AR

An executor of a decedent's estate that has only U.S. citizens as beneficiaries is required to file a fiduciary income tax return, if the estate's gross income for the year is at least
A. $400
B. $500
C. $600
D. $1,000

AUD ANSWERS

AUD Question 1.
AICPA.AICPA.120606AUD

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization

A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria: (a) is accountable to the head or deputy head of the government entity or to those charged with governance; (b) reports the audit results both to the head or deputy head of the government entity and to those charged with governance; (c) is located organizationally outside the staff or line-management function of the unit under audit; (d) has access to those charged with governance; and (e) is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

AUD Question 2.
AICPA.120608AUD

The controller of a small utility company has interviewed audit firms proposing to perform the annual audit of their employee benefit plan. According to the guidelines of the Department of Labor (DOL), the selected auditor must be

A. The firm that proposes the lowest fee for the work required.
B. Independent for purposes of examining financial information required to be filed annually with the DOL.
C. Included on the list of firms approved by the DOL.
D. Independent of the utility company and NOT relying on its services.

DOL guidelines do require independent for such work. Although DOL independence rules differ from AICPA rules, independence is still required.

AUD Question 3.
aq.aud.sec.005_2017

Which of the following employment relationships does not impair independence under SEC rules?

A. The Badger audit firm audits ABC Co., a publicly traded company. Tam is on Badger's audit team for the audit. His sister is a direct report of the CFO of ABC.
B. The Otter audit firm audits XYZ Co., a publicly traded company. Tim was on Otter's audit team for the audit last year, but just a few days after last year's audit was completed, Tim severed all ties with Otter and went to work as the controller at XYZ.
C. The Weasel audit firm audits LMN Co., a publicly traded company. LMN's audit cycle runs from January 1 to December 31. Tom was on Weasel's audit team for the 2016 audit. He severed all ties with Weasel on March 1, 2017. Tom went to work in a significant accounting position at LMN on January 2, 2019.
D. The Possum audit firm audits PQR Co., a publicly traded company. Max is lead partner on the PQR audit team. Max's sister Estrella is CFO of PQR. Max and his sister are estranged.

Tom has disassociated from Weasel by severing all ties and has served the one-year cooling-off period.

AUD Question 4.
aq.sec.exch.com.001_2017

Which of the following are "covered persons" for purposes of the SEC's independence rules?

A. Sarah, a tax partner at her firm. She gave 15 hours of advice to her firm's audit team regarding the audit of ABC Co.
B. Tory, the chairman and senior partner at Sarah's firm.
C. Burt, the lead partner for the ABC Co. audit at Sarah's firm.
D. All of the options.

All three of these people are "covered persons" for SEC purposes.

AUD ANSWERS

AUD Question 5.
AICPA.101018AUD-SIM

Sue's firm was hired to audit a Reno County project that used federal grant money to attempt to create jobs for people on welfare. Sue was in charge of the audit, and her team found many questionable practices. When the chief administrator of Reno County's government heard about Sue's preliminary findings, he called her into his office and told her that her firm would lose every single audit contract it had with every single unit of Reno County government if he was not pleased with Sue's audit report. This is an example of:

A. A potential personal impairment of independence.
B. A potential external impairment of independence.
C. A potential organizational impairment of independence.
D. None of the above.

The potential impairment threat is external, stemming from the threatened firing.

AUD Question 6.
AICPA.130507AUD-SIM

In AICPA professional standards, the word should indicates an (a)

A. Interpretive suggestion that does not constitute a professional requirement.
B. Unconditional requirement with which the auditor is obligated to comply.
C. Presumptively mandatory requirement from which the CPA may depart in rare circumstances.
D. Recommendation that has no authoritative status.

The word should *indicates a presumptively mandatory requirement.*

AUD Question 7.
AICPA.130506AUD-SIM

Interpretive publications include all of the following, except for

A. Appendices to Statements on Auditing Standards.
B. Articles in the AICPA's Journal of Accountancy.
C. Auditing guidance included in AICPA Audit and Accounting Guides.
D. Auditing interpretations of the Statements on Auditing Standards.

Articles in the Journal of Accountancy have no authoritative status, and would be classified as other auditing publications.

AUD Question 8.
AICPA.070632AUD

An auditor's engagement letter most likely would include a statement that

A. Lists potential significant deficiencies discovered during the prior-year's audit.
B. Explains the analytical procedures that the auditor expects to apply.
C. Describes the auditor's responsibility to evaluate going-concern issues.
D. Limits the auditor's responsibility to detect errors and fraud.

The detection of errors and fraud is an area commonly misunderstood by clients. As a result, the auditor's responsibility related to errors and fraud is clearly laid out in the engagement letter. The letter would note that the auditor is responsible for obtaining reasonable rather than absolute assurance about whether the financial statements are free of material misstatements caused by error or fraud. As a result, a material misstatement may remain undetected. Further, an audit is not designed to detect error or fraud that is immaterial to the financial statements.

AUD Question 9.
AICPA.900553AUD-AU

The scope and nature of an auditor's contractual obligation to a client ordinarily is set forth in the

A. Management letter.
B. Scope paragraph of the auditor's report.
C. Engagement letter.
D. Introductory paragraph of the auditor's report.

AUD ANSWERS

The engagement letter is the contract between the auditor and the client. It sets forth the nature of the engagement, timing, anticipated completion dates, and client assistance to be rendered.

AUD Question 10.
AICPA.120712AUD

Which of the following procedures would an auditor most likely perform in the planning stage of an audit?
A. Make a preliminary judgment about materiality.
B. Confirm a sample of the entity's accounts payable with known creditors.
C. Obtain written representations from management that there are NO unrecorded transactions.
D. Communicate management's initial selection of accounting policies to the audit committee.

In planning the overall audit strategy and designing the written audit plan, the auditor should consider materiality for the financial statements taken as a whole.

AUD Question 11.
AICPA.020419AUD-AU

An auditor discovered that a client's accounts receivable turnover is substantially lower for the current year than for the prior year.
This may indicate that
A. Fictitious credit sales have been recorded during the year.
B. Employees have stolen inventory just before the year end.
C. The client recently tightened its credit-granting policies.
D. An employee has been lapping receivables in both years.

Accounts receivable turnover is computed as net credit sales divided by the accounts receivable balance (or an average balance). A reduction in accounts receivable turnover would result from lower sales or higher receivable balances. If fictitious credit sales were recorded, the related receivables would remain unpaid, causing higher receivable balances. The end result would be a lower accounts receivable turnover ratio.

AUD Question 12.
AICPA.930517AUD-AU

The authority to accept incoming goods in receiving should be based on a(an)
A. Vendor's invoice.
B. Materials requisition.
C. Bill of lading.
D. Approved purchase order.

A copy of the approved purchase order should be sent to receiving and used as the basis for receiving goods. This will prevent the erroneous acceptance of goods never ordered.

AUD Question 13.
AICPA.920548AUD-AU

Which of the following control procedures would be most likely to assist in reducing control risk related to the existence or occurrence of manufacturing transactions?
A. Perpetual inventory records are independently compared with goods on hand.
B. Forms used for direct material requisitions are prenumbered and accounted for.
C. Finished goods are stored in locked limited-access warehouses.
D. Subsidiary ledgers are periodically reconciled with inventory control accounts.

The independent comparison of perpetual inventory records with goods on hand addresses the existence of manufacturing transactions which produce inventory.

AUD ANSWERS

AUD Question 14.
AICPA.990525AUD-AU

For which of the following matters should an auditor obtain written management representations?
A. Management's cost-benefit justifications for not correcting internal control weaknesses.
B. Management's knowledge of future plans that may affect the price of the entity's stock.
C. Management's compliance with contractual agreements that may affect the financial statements.
D. Management's acknowledgment of its responsibility for employees' violations of laws.

The management representations letter typically includes a comment along the following lines: "We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements." The foregoing passage encompasses any violations of contracts having material financial statement impact.

AUD Question 15.
AICPA.940539AUD-AU

An auditor concluded that no excessive costs for idle plant were charged to inventory. This conclusion is most likely related to the auditor's goal of obtaining evidence about which assertion regarding inventory at the end of the period?
A. Valuation and allocation.
B. Completeness.
C. Existence.
D. Rights and obligations.

If excessive costs for idle plant were charged to inventory, the inventory account would be overstated. The overstatement would be a concern related to the valuation and allocation assertion, which addresses whether asset accounts have been included in the financial statements at appropriate amounts.

AUD Question 16.
AICPA.111163AUD

Which of the following conditions or events most likely would cause an auditor to have substantial doubt about an entity's ability to continue as a going concern?
A. Significant related party transactions are pervasive.
B. Usual trade credit from suppliers is denied.
C. Arrearages in preferred stock dividends are paid.
D. Restrictions on the disposal of principal assets are present.

The denial of usual trade credit from suppliers is a clear indicator that an entity has significant financial problems.

AUD Question 17.
aicpa.aicpa.120606aud

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization
A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

Under GAGAS, a government internal audit function can be presumed to be free from organizational impairments to independence for reporting internally if the head of the audit organization meets all of the following criteria: (a) is accountable to the head or deputy head of the government entity or to those charged with governance; (b) reports the audit results both to the head or deputy head of the government entity and to those charged with governance; (c) is located organizationally outside the staff or line-management function of the unit under audit; (d) has access to those charged with governance; and (e) is sufficiently removed from political pressures to conduct audits and report findings, opinions, and conclusions objectively without fear of political reprisal.

AUD ANSWERS

AUD Question 18.
AICPA.921125AUD-AU

In planning a statistical sample for a test of controls, an auditor increased the expected population deviation rate from the prior year's rate because of the results of the prior year's tests of controls and the overall control environment.

The auditor most likely would then increase the planned
A. Tolerable rate.
B. Allowance for sampling risk.
C. Risk of assessing control risk too low.
D. Sample size.

An increase in the expected population deviation rate would result in an increase in the planned sample size. The more errors expected in the population, the bigger the sample has to be to try to detect them.

AUD Question 19.
AICPA.900543AUD-AU

An auditor is testing internal control procedures that are evidenced on an entity's vouchers by matching random numbers with voucher numbers.

If a random number matches the number of a voided voucher, that voucher ordinarily should be replaced by another voucher in the random sample if the voucher
A. Constitutes a deviation.
B. Has been properly voided.
C. Cannot be located.
D. Represents an immaterial dollar amount.

A properly voided voucher would be replaced by another voucher so that the internal controls could be tested on a valid sample item.

AUD Question 20.
AICPA.010407AUD-AU

Which of the following characteristics distinguishes electronic data interchange (EDI) from other forms of electronic commerce?
A. EDI transactions are formatted using standards that are uniform worldwide.
B. EDI transactions need not comply with generally accepted accounting principles.
C. EDI transactions are ordinarily processed without the Internet.
D. EDI transactions are usually recorded without security or privacy concerns.

Electronic data interchange (EDI) utilizes standardized formats for electronically transferring information. By adopting EDI, a company can electronically transfer information from one system into another. The elimination of manual re-entry of data and paperwork reduces costs and increases accuracy.

AUD Question 21.
AICPA.901102AUD-AU

King, CPA, was engaged to audit the financial statements of Newton Company after its fiscal year had ended. King neither observed the inventory count nor confirmed the receivables by direct communication with debtors, but was satisfied concerning both after applying alternative procedures.

King's auditor's report most likely contained a(n)
A. Qualified opinion
B. Disclaimer of opinion.
C. Unmodified opinion.
D. Unmodified opinion with an other-matter paragraph.

AUD ANSWERS

As long as the auditor is satisfied regarding the fair presentation of the accounts and financial statements in accordance with GAAP, an unmodified opinion may be expressed.

AUD Question 22.
AICPA.930556AUD-AU

A limitation on the scope of an audit sufficient to preclude an unmodified opinion will usually result when management
A. Is unable to obtain audited financial statements supporting the entity's investment in a foreign subsidiary.
B. Refuses to disclose in the notes to the financial statements related party transactions authorized by the board of directors.
C. Does not sign an engagement letter specifying the responsibilities of both the entity and the auditor.
D. Fails to correct a significant deficiency communicated to the audit committee after the prior year's audit.

If management is unable to obtain audited financial statements supporting the entity's investment in a foreign subsidiary, the resultant scope limitation may warrant a qualified opinion or a disclaimer.

AUD Question 23.
aicpa.sa.serv.org.user.001_19

A nonissuer uses a service organization whose services are part of the nonissuer's system of internal control. In the integrated audit, how does an auditor evaluate whether the service auditor's report on controls provides sufficient appropriate evidence to support an opinion on internal controls over financial reporting?

A. By inquiring of the service auditor's reputation only from the company's outside attorney.
B. By observing the service auditor to determine the level of knowledge about the entity under audit during the first week of the audit field work.
C. By assessing the results of the tests of controls and the service auditor's opinion on the operating effectiveness of the controls.
D. By performing a background check of the service auditor.

AUD Question 24.
AICPA.950576AUD-AU

An auditor most likely would be responsible for communicating significant deficiencies in the design of internal control structure
A. To the Securities and Exchange Commission when the client is a publicly held entity.
B. To specific legislative and regulatory bodies when reporting under Government Auditing Standards.
C. To a court-appointed creditors' committee when the client is operating under Chapter 11 of the Federal Bankruptcy Code.
D. To shareholders with significant influence (more than 20% equity ownership) when the significant deficiencies conditions are deemed to be material weaknesses.

Government Auditing Standards include the standards for audits of governmental entities of all types, programs, activities, functions, and recipients of government assistance. These standards specifically require a report on internal control structure. As a result, an auditor would most likely be responsible for communicating significant deficiencies in the design of internal control when reporting under Government Auditing Standards. Note, however, that GAAS also require the reporting of significant deficiencies but to those in governance (e.g., audit committee), not specific legislative and regulatory bodies.

AUD Question 25.
AICPA.950584AUD-AU

In reporting on an entity's internal control over financial reporting in an integrated audit of a nonissuer, an auditor should include a paragraph that describes the
A. Documentary evidence regarding the control environment factors.
B. Changes in internal control since the prior report.
C. Potential benefits from the auditor's suggested improvements.
D. Inherent limitations of internal control.

Professional standards governing attest engagements on internal control require that the report include a paragraph stating that, because of inherent limitations of any internal control, errors or irregularities could occur and not be detected.

BEC ANSWERS

BEC Question 1.
aicpa.aq.intro.coso.int.ctrl.004_2-18

According to COSO, which of the following components addresses the need to respond in an organized manner to significant changes resulting from international exposure, acquisitions, or executive transitions?
A. Control activities
B. Risk assessment
C. Monitoring activities
D. Information and communication

Correct! Risk assessment is the process of identifying, analyzing, and managing the risks involved in achieving the organization's objectives. Changes related to international exposure, acquisitions, or executive transitions create risks, which must be assessed, prioritized, and responded to.

BEC Question 2.
AICPA.110534BEC-SIM

Which of the following is the best definition of a compensating control?
A. A control that accomplishes the same objective as another control.
B. A condition within an internal control system requiring attention.
C. The targets against which the effectiveness of internal control are evaluated.
D. Metrics that reflect critical success factors.

This is the best answer. It is the definition of a compensating control.

BEC Question 3.
AICPA.130525BEC-SIM

This component of internal control concerns the policies and procedures that ensure that actions are taken to address the risks related to the achievement of management's objectives.
A. Control activities.
B. Control environment.
C. Monitoring.
D. Risk assessment.

Control activities are, "...the policies and procedures that ensure that actions are taken to address the risks related to the achievement of management's objectives."

BEC Question 4.
AICPA.130524BEC-SIM

This component of internal control concerns testing the system and its data.
A. Control activities.
B. Control environment.
C. Monitoring.
D. Risk assessment.

Monitoring ensures the ongoing reliability of information by monitoring and testing the system and its data.

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BEC ANSWERS

BEC Question 5.
AICPA.061219BEC-SIM

Milo Corp. maintains daily backups of its accounting system in a fireproof vault in the file library. Weekly, monthly, and annual backups are stored in a secure, fireproof vault at an off-site location.
Maintenance of the backup files is an example of
A. a detective control.
B. a feedback control.
C. a corrective control.
D. a preventive control.

Corrective controls allow the user to recover from a problem once it has been identified.

BEC Question 6.
AICPA.130724BEC

A government internal audit function is presumed to be free from organizational independence impairments for reporting internally when the head of the organization
A. Is not accountable to those charged with governance.
B. Performs auditing procedures that are consistent with generally accepted accounting principles.
C. Is a line-manager of the unit under audit.
D. Is removed from political pressure to conduct audits objectively, without fear of political reprisal.

"Increasing the reliability of financial reporting and compliance with applicable laws and regulations" is not one of the process in the monitoring for change COSO model.

BEC Question 7.
AICPA.101142BEC-SIM

The currency or currencies of the Eurodollar market (Euromarket) include(s):

	U.S. Dollar	**EEU Euro**
A.	Yes	Yes
B.	**Yes**	**No**
C.	No	Yes
D.	No	No

The currency of the Eurodollar market (also Euromarket) is the U.S. dollar; Euromarket does not use the EEU euro as its currency.

BEC Question 8.
AICPA.101127BEC-SIM

International trade is measured by a country's

	imports	**exports**
A.	**Yes**	**Yes**
B.	Yes	No
C.	No	Yes
D.	No	No

International trade is measured by both a country's level of imports and its level of exports, both of which are components of international trade.

BEC Question 9.
AICPA.101188BEC-SIM

Which one of the following is least likely an advantage associated with a wholly owned foreign subsidiary?
A. Protection of proprietary information.
B. Ability to coordinate activities of the subsidiary with other activities.
C. Ability to maintain quality control.
D. Minimizes capital investment required.

BEC ANSWERS

Minimizing capital investment required is not likely to be an advantage associated with a wholly owned foreign subsidiary. Acquiring or establishing a wholly owned foreign subsidiary typically is a costly and time consuming undertaking. Other forms of international business are likely to require less capital investment than a wholly owned foreign subsidiary.

BEC Question 10.
AICPA.101185BEC-SIM

Which of the following statements regarding foreign licensing and foreign franchising, if any, is/are correct?

I. Licensors typically remain more involved with a licensee than a franchisor remains involved with a franchisee.

II. Franchising typically provides greater quality control than does simple licensing.
A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

Franchising is a special form of licensing in which the franchisor sells intangible assets to a franchisee and mandates strict operating requirements of the franchisee. Thus, franchising does typically provide greater quality control than simple licensing (Statement II). Licensors typically do not remain more involved with a licensee than a franchisor does with a franchisee (Statement I).

BEC Question 11.
AICPA.101150BEC-SIM

In which of the following geographical areas has the greatest decline in share of worldwide output occurred over the past 40 years?
A. U.S.A
B. Europe.
C. Latin America.
D. Asia.

Europe has had the greatest decline in share of worldwide output over the last 40 years. During that time, virtually all of the largest European producers have suffered declines in share of world output, totaling about 10%.

BEC Question 12.
AICPA.150200BEC-SIM

The measurement of the benefit lost by using resources for one purpose and not another is
A. Sunk cost.
B. Opportunity cost.
C. Incremental cost.
D. Differential cost.

Opportunity cost is the discounted dollar value of benefits lost from an opportunity as a result of choosing another opportunity.

BEC Question 13.
AICPA.120638BEC

A company forecast first quarter sales of 10,000 units, second quarter sales of 15,000 units, third quarter sales of 12,000 units and fourth quarter sales of 9,000 units at $2 per unit. Past experience has shown that 60% of the sales will be in cash and 40% will be on credit. All credit sales are collected in the following quarter, and none are uncollectible. What amount of cash is forecasted to be collected in the second quarter?
A. $ 8,000
B. $18,000
C. $26,000
D. $30,000

The correct forecasted cash collected in the second quarter of $26,000 consists of 60% of second quarter sales ($18,000 = 15,000 ($2) (.6)) and 40% of first quarter's sales of ($8,000 = 10,000 ($2) (.4)).

BEC ANSWERS

BEC Question 14.
AICPA.101177BEC-SIM

Which of the following U.S. GAAP levels of inputs for valuation purposes is/are based on observable inputs?

	Level 1	Level 2	Level3
A.	Yes	Yes	Yes
B.	**Yes**	**Yes**	**No**
C.	Yes	No	No
D.	No	No	Yes

Level 1 and level 2 inputs are based on observable inputs, but level 3 inputs are not based on observable inputs.

BEC Question 15.
AICPA.101195BEC-SIM

Which one of the following is not an element in the capital asset pricing model formula?
A. Risk-free rate of return.
B. Expected rate of return for the class of item being valued.
C. Prime interest rate.
D. A measure of volatility for the item being valued.

The prime interest rate is not an element in the capital asset pricing model formula. The elements used in the formula include the risk-free rate of return, beta (a measure of volatility for the asset being valued) and the expected rate of return for the entire class of the asset being valued.

BEC Question 16.
AICPA.081215-SIM

Which of the following roles is responsible for prioritizing systems development proposals?
A. IT steering committee.
B. Lead systems analyst.
C. Application programmers.
D. End users.

This group's principal duty is to approve and prioritize systems proposals for development.

BEC Question 17.
AICPA.08011636BEC.IV

Which of the following is responsible for identifying problems and proposing initial solutions?
A. IT Steering Committee.
B. Lead systems analyst.
C. Application programmers.
D. End users.

This group has the primary responsibility of identifying problems and proposing initial solutions.

BEC Question 18.
AICPA.08011644BEC.IV

In which of the following implementation approaches do the new and old systems run concurrently until it is clear that the new system is working properly?
A. Parallel.
B. Cold turkey.
C. Phased.
D. Pilot.

The new and old systems run concurrently until it is clear that the new system is working properly.

BEC ANSWERS

BEC Question 19.
AICPA.08011640BEC.IV

The requirements definition document is signed at this stage:
A. Planning and feasibility.
B. Analysis.
C. Design and development.
D. Implementation.

Systems analysts work with end users to understand and document business processes and system requirements at this stage. All parties sign off on the requirements definition to signify their agreement with the projects goals and processes at this stage.

BEC Question 20.
sa.hr.pay.cyc.001_17

Billy Bob's BarBQ has a small accounting staff and outsources payroll to a payroll service bureau. Which of the following is least likely to be an advantage of outsourcing payroll?
A. Improved accuracy
B. More accurate time recording by employees
C. Improved segregation of duties
D. Lower fraud risk

Correct! Outsourcing payroll is unlikely to improve employees' willingness to record their time.

BEC Question 21.
AICPA.951145BEC-AR

Gram Co. develops computer programs to meet customers' special requirements. How should Gram categorize payments to employees who develop these programs?

	Direct Costs	Value-adding costs
A.	**Yes**	**Yes**
B.	Yes	No
C.	No	No
D.	No	Yes

The salaries of the employees working on the programs are directly related to the value-added activity of developing the computer programs. The salaries are directly traceable to the end product. Without the work of these employees, the products would not be possible. As the number of specialized program orders increases (for different programs), the salary cost increases. The work of these programmers could not be eliminated without jeopardizing this part of the business, and thus, it is a value-added cost. A value-added cost is one that, if eliminated, would reduce the value of the product to the customer.

BEC Question 22.
AICPA.120605BEC

A static budget contains which of the following amounts?
A. Actual costs for actual output.
B. Actual costs for budgeted output.
C. Budgeted costs for actual output.
D. Budgeted costs for budgeted output.

A static budget is a comprehensive financial plan produced at the beginning of the year for the entire enterprise and does not change (or flex) during the year. Thus, it uses budgeted costs based on budgeted output.

BEC ANSWERS

BEC Question 23.
AICPA.060616BEC

Which of the following would be most impacted by the use of the percentage of sales forecasting method for budgeting purposes?
A. Accounts payable.
B. Mortgages payable.
C. Bonds payable.
D. Common stock.

The percentage of sales forecasting method is used to define operating costs such as cost of goods sold, supplies expense, sales discounts, etc. It also defines the percentage of sales that are collected in cash and the percentage of purchases that are paid for in cash and, consequently, accounts payable.

BEC Question 24.
AICPA.930546BEC-TH-AR

The basic difference between a master budget and a flexible budget is that a master budget is
A. Based on one specific level of production, and a flexible budget can be prepared for any production level within a relevant range.
B. Only used before and during the budget period, and a flexible budget is only used after the budget period.
C. Based on a fixed standard, whereas a flexible budget allows management latitude in meeting goals.
D. For an entire production facility, whereas a flexible budget is applicable to single departments only.

A master, also called a static, budget is developed for planning and resource allocation purposes. Therefore, it is based on one specific level of activity.

A flexible budget, as its name implies, can be developed for any activity level within the range that the firm has the capacity to produce.

BEC Question 25.
aicpa.901146BEC-TH-AR

On November 1, Year 1, a company purchased a new machine that it does not have to pay for until November 1, Year 3. The total payment on November 1, Year 3 will include both principal and interest. Assuming interest at a 10% rate, the cost of the machine would be the total payment multiplied by what time value of money concept?
A. Present value of annuity of 1.
B. Present value of 1.
C. Future amount of annuity of 1.
D. Future amount of 1.

A present value of 1 factor is used because only one payment is to be made. Present value (which also is cost) = (present value of 1 factor) x (future payment). The future payment is being discounted to its present value.

FAR ANSWERS

FAR Question 1.
AICPA.930560FAR-P1-FA

The following information pertains to Jet Corp. outstanding stock for Year 1:

Common stock, $5 par value	
Shares outstanding, 1/1/01	20,000
2-for-1 stock split, 4/1/Year 1	20,000
Shares issued, 7/1/Year 1	10,000
Preferred stock, $10 par value, 5% cumulative	
Shares outstanding, 1/1/Year 1	4,000

What are the number of shares Jet should use to calculate Year 1 earnings per share?
A. 40,000
B. 45,000
C. 50,000
D. 54,000

The effect of the stock split is applied retroactively to all changes in the number of shares of common stock outstanding before the split.

The weighted average shares outstanding for this firm for Year 1 is: 45,000 = [20,000(2) + 10,000(1/2)]. The split affects only the shares issued before date of the split. The July 1 issuance is weighted only by 1/2 a year because the shares were outstanding only 1/2 a year. EPS is computed only on common stock outstanding. The preferred shares have no effect on the computation.

FAR Question 2.
AICPA.130728FAR

A company had the following outstanding shares as of January 1, year 2:

Preferred stock, $60 par, 4%, cumulative	10,000 shares
Common stock, $3 par	50,000 shares

On April 1, year 2, the company sold 8,000 shares of previously unissued common stock. No dividends were in arrears on January 1, year 2, and no dividends were declared or paid during year 2. Net income for year 2 totaled $236,000. What amount is basic earnings per share for the year ended December 31, year 2?

A. $3.66
B. $3.79
C. $4.07
D. $4.21

Basic EPS = Net Income - Preferred Dividends / Weighted shares outstanding. The numerator is $236,000 - preferred dividends [($60 × 10,000) × .04 = 24,000] = $212,000. The denominator is 50,000 (12/12) + 8,000 (9/12) = 56,000 shares. $212,000 / 56,000 = $3.786 or $3.79.

FAR Question 3.
AICPA.051177FAR-FA

Which of the following qualifies as a reportable operating segment?
A. Corporate headquarters, which oversees $1 billion in sales for the entire company
B. North American segment, whose assets are 12% of the company's assets of all segments, and management reports to the chief operating officer

FAR ANSWERS

C. South American segment, whose results of operations are reported directly to the chief operating officer, and has 5% of the company's assets, 9% of revenues, and 8% of the profits
Eastern Europe segment, which reports its results directly to the manager of the European division, and has 20% of the company's assets, 12% of revenues, and 11% of profits

Only the North American segment meets at least one of the three quantitative criteria at the 10% level (revenue, income, assets) AND reports to the chief operating decision maker of the firm as a whole. For all three criteria, the segment must account for 10% or more of the combined amount for all operating segments. Reporting to the company-wide chief operating decision maker is also a requirement of an operating segment.

FAR Question 4.
AICPA.910511FAR-P2-FA

The following information pertains to revenue earned by Timm Co.'s industry segments for the year ending December 31, 2005:

Segment	**Sales to unaffiliated customers**	**Intersegment sales**	Total revenue
Alo	$5,000	$3,000	$8,000
Bix	8,000	4,000	12,000
Cee	4,000	-	4,000
Dil	43,000	16,000	59,000
Combined	60,000	23,000	83,000
Elimination	-	(23,000)	(23,000)
Consolidated	$60,000	-	$60,000

In conformity with the revenue test, Timm's reportable segments were

A. Only Dil.
B. Only Bix and Dil.
C. Only Alo, Bix, and Dil.
D. Alo, Bix, Cee, and Dil.

To meet the revenue test, an operating segment must have total sales (including intersegment sales) of 10% or more of the combined segment sales (including intersegment sales). $83,000 is the test number.

Only Bix with $12,000 of total sales and Dil with $59,000 have sales in excess of $8,300 (.10 × $83,000).

FAR Question 5.
AICPA.08211234FAR-III

A corporation issues quarterly interim financial statements and uses the lower cost or net realizable value to value its inventory in its annual financial statements. Which of the following statements is correct regarding how the corporation should value its inventory in its interim financial statements?
A. Inventory losses generally should be recognized in the interim statements.
B. Temporary market declines should be recognized in the interim statements.
C. Only the cost method of valuation should be used.
D. Gains from valuations in previous interim periods should be fully recognized.

Only temporary losses expected to be recovered are not recognized in interim periods. Because most inventory losses are permanent, this is the best answer of the four.

FAR ANSWERS

FAR Question 6.
AICPA.110563FAR-TI

In general, an enterprise preparing interim financial statements should:
A. Defer recognition of seasonal revenue.
B. Disregard permanent decreases in the market value of its inventory.
C. Allocate revenues and expenses evenly over the quarters, regardless of when they actually occurred.
D. Use the same accounting principles followed in preparing its latest annual financial statements.

Interim financial statements generally should reflect the same accounting principles used in preparing annual financial statements. Interim periods are considered an integral part of the annual period, with some exceptions.

FAR Question 7.
AICPA.901155FAR-P1-FA

Farr Corp. had the following transactions during the quarter ended March 31, 20X5:

Loss on early extinguishment of debt $	70,000
Payment of fire insurance premium for calendar year 20X5	100,000

What amount should be included in Farr's income statement for the quarter ended March 31, 20X5?

	Extinguishment loss	Insurance expense
A.	$70,000	$100,000
B.	**$70,000**	**$25,000**
C.	$17,500	$25,000
D.	$0	$100,000

In large measure, accounting principles for interim periods are the same as for annual periods. The extinguishment loss is a one-time event and is recognized entirely in the first quarter. The insurance payment covers an annual period. Thus, only 1/4 of the payment, or $25,000 ($100,000 × .25), is allocated to the first quarter.

FAR Question 8.
AICPA.100914FAR-OCB-SIM

Financial Statements prepared on a modified cash basis of accounting would contain items measured on which, if either, of the following bases?

	Cash Basis	Accrual Basis
A.	**Yes**	**Yes**
B.	Ye	No
C.	No	Yes
D.	No	No

A modified cash basis of accounting would contain items (accounts) measured under both the cash basis of accounting and the accrual basis of accounting. The modified cash basis of accounting uses cash basis accounting modified to incorporate accrual basis accounting for certain types of transactions/events. Modifications must be logical and consistent with accrual basis accounting under U.S. GAAP.

FAR Question 9.
aicpa.090131FAR-SIM

The General Fund pays an invoice for telecommunications that includes charges owed by the Water Utility Enterprise Fund. The Enterprise Fund subsequently remits its share of the telecommunications charges to the General Fund. The General Fund records the amount received from the Enterprise Fund as:
A. An increase to revenue.
B. An increase to Operating Transfers In.
C. A decrease in expenses.
D. A decrease in Expenditures.

A modified cash basis of accounting would contain items (accounts) measured under both the cash basis of accounting and the accrual basis of accounting. The modified cash basis of accounting uses cash basis accounting modified to incorporate accrual basis accounting for certain types of

FAR ANSWERS

transactions/events. Modifications must be logical and consistent with accrual basis accounting under U.S. GAAP.

FAR Question 10.
AICPA.950522FAR-FA
During 2005, Haft Co. became involved in a tax dispute with the IRS.

At December 31, Year 5, Haft's tax advisor believed that an unfavorable outcome was probable. A reasonable estimate of additional taxes was $200,000 but could be as much as $300,000. After the Year 5 financial statements were issued, Haft received and accepted an IRS settlement offer of $275,000.

What amount of accrued liability should Haft have reported in its December 31, Year 5 balance sheet?
A. $200,000
B. $250,000
C. $275,000
D. $300,000

When a range of possible losses is estimated, and no one amount is considered more probable than the others, the lowest estimate is accrued, if also probable.

FAR Question 11.
AICPA.901128FAR-P1-FA

Dunn Trading Stamp Co. records stamp service revenue and provides for the cost of redemptions in the year stamps are sold to licensees. Dunn's past experience indicates that only 80% of the stamps sold to licensees will be redeemed. Dunn's liability for stamp redemptions was $6,000,000 at December 31, Year 5. Additional information for Year 6 is as follows:

Stamp service revenue from stamps sold to licensees	$4,000,000
Cost of redemptions (stamps sold prior to 1/1/Y6)	2,750,000

If all the stamps sold in Year 6 were presented for redemption in Year 7, the redemption cost would be $2,250,000. What amount should Dunn report as a liability for stamp redemptions at December 31, Year 6?
A. $7,250,000
B. $5,500,000
C. $5,050,000
D. $3,250,000

Beginning liability balance	*$6,000,000*	
Plus estimated redemptions for Year 6:	*.80($2,250,000)*	*1,800,000*
Less actual redemptions in Year 6	*(2,750,000)*	
Equals ending liability balance	*$5,050,000*	

The firm estimates the redemption cost in the year of sale, much like a warranty liability. For Year 6, this increases the redemption liability by $1,800,000. When actual redemptions occur, the liability is extinguished at the cost of the redemptions ($2,750,000).

FAR Question 12.
AICPA.970509FAR-FA

The market price of a bond issued at a premium is equal to the present value of its principal amount
A. Only, at the stated interest rate.
B. In addition to the present value of all future interest payments, at the stated interest rate
C. Only, at the market (effective) interest rate
D. In addition to the present value of all future interest payments at the market (effective) interest rate

FAR ANSWERS

FAR Question 13.
AICPA.090668.FAR.II

A company issues bonds at 98, with a maturity value of $50,000. The entry the company uses to record the original issue should include which of the following?

A. A debit to bond discount of $1,000.
B. A credit to bonds payable of $49,000
C. A credit to bond premium of $1,000
D. A debit to bonds payable of $50,000

The price of 98 refers to 98% of the face value or $49,000 ($50,000 × .98). The issuance entry is: dr. Cash $49,000, dr. Discount, $1,000, cr. Bonds Payable $50,000. The discount is a contra bonds payable account.

FAR Question 14.
AICPA.900536FAR-P1-FA

On July 1, Year 1, Howe Corp. issued 300 of its 10%, $1,000 bonds at 99 plus accrued interest.

The bonds are dated April 1, year 1 and mature on April 1, year 11. Interest is payable semiannually on April 1 and October 1.

What amount did Howe receive from the bond issuance?

A. $304,500
B. $300,000
C. $297,000
D. $289,500

The amount received is the price of the bonds plus interest from April 1, the bond date, to July 1, the issue date:

Amount received = .99(300)($1,000) + .10(3/12 year)(300)($1,000) = $304,500

The second term in the above calculation uses 3/12 of a year, which is the portion of a year between April 1 and July 1.

FAR Question 15.
AICPA.940546FAR-FA

A bond issued on June 1, Year 1, has interest payment dates of April 1 and October 1. The bond interest expense for the year ended December 31, year 1 is for a period of

A. Three months.
B. Four months.
C. Six months.
D. Seven months.

The bonds have been outstanding seven months by the end of year 1. The firm has borrowed money for seven months. Therefore, seven months' interest should be recognized in year 1.

Only six months of interest was PAID in year 1 because the bonds were issued after April 1 (one of the two interest payment dates per year), but that is not what the question asks.

FAR Question 16.
AICPA.990509FAR-FA
Perk, Inc. issued $500,000, 10% bonds to yield 8%. Bond issuance costs were $10,000.

How should Perk calculate the net proceeds to be received from the issuance?

A. Discount the bonds at the stated rate of interest.
B. Discount the bonds at the market rate of interest.
C. Discount the bonds at the stated rate of interest and deduct bond issuance costs.
D. Discount the bonds at the market rate of interest and deduct bond issuance costs.

FAR ANSWERS

The price at which bonds sell is calculated as the present value of the principal amount plus the present value of the bond interest payments; both are discounted using the market rate of interest appropriate for the bonds. (The market rate of interest is also the effective rate or the interest rate the bonds will yield.) The bond issue cost will be deducted from the gross proceeds to determine the net amount to be received by the issuer.

FAR Question 17.
AICPA.921137FAR-P1-FA

During Year 2, Lake Co. issued 3,000 of its 9%, $1,000 face value bonds at 101 1/2. In connection with the sale of these bonds, Lake paid the following expenses:

Promotion costs	$ 20,000
Engraving and printing	25,000
Underwriters' commissions	200,000

What amount should Lake record as bond issue costs to be amortized over the term of the bonds?

A. $0
B. $220,000
C. $225,000
D. $245,000

All three listed costs are included in bond issue costs and are amortized over the term of the bonds. All three contribute to the effort of issuing the bonds.

FAR Question 18.
AICPA.950519FAR-FA

On July 1, Year 5, Eagle Corp. issued 600 of its 10%, $1,000 bonds at 99 plus accrued interest. The bonds are dated April 1, Year 5 and mature on April 1, Year 15. Interest is payable semiannually on April 1 and October 1.

What amount did Eagle receive from the bond issuance?

A. $579,000
B. $594,000
C. $600,000
D. $609,000

The total amount received, which is called proceeds on the bond issue, is:

.99($1,000)(600) + .10(3/12)(600)($1,000) = $609,000.

The first factor is the total bond price, exclusive of accrued interest. The second factor is the accrued interest since 4/1/Y5.

When bonds are issued between interest dates, the cash interest since the most recent past interest payment date must be collected from the bondholders because a full six months' interest is paid on the following interest date.

FAR Question 19.
AICPA.090205FAR-SIM

For accounting purposes, a hedge to offset the risk of exchange rate changes on a planned transaction would be classified as the hedge of:

A. A firm commitment.
B. A forecasted transaction.
C. A recognized asset.
D. An unrecognized asset.

A hedge to offset the risk of exchange rate changes on a planned transaction would be the hedge of a forecasted transaction. A forecasted transaction is a non-firm, but planned or expected transaction that will be denominated in a foreign currency.

FAR ANSWERS

FAR Question 20.
AICPA.090206FAR-SIM
Which of the following statements concerning foreign currency hedging is/are correct?

I. The item being hedged is denominated in a foreign currency.

II. The item being hedged must be recorded on the entity's books in order to be hedged.
A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

In foreign currency hedging, the item being hedged is denominated in a foreign currency (Statement I). The item being hedged does not have to be recorded on the entity's books in order to be hedged (Statement II). For example, forecasted transactions and unrecognized firm commitments may be hedged because they are subject to the same risk of foreign currency exchange rate changes as are already booked (recognized) assets and liabilities.

FAR Question 21.
AICPA.090208FAR-SIM

At the beginning of its fiscal year, a U.S. firm planned a transaction to purchase specialized equipment from a foreign manufacturer. The firm subsequently entered into a contract with the foreign firm. Which of the U.S. firm's actions could be hedged?

	Plan to Purchase	Contract to Purchase
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

The U.S. firm could hedge both its plan to purchase the equipment and, subsequently, its contract to purchase the equipment. The first would be a hedge of a forecasted transaction, and the second would be a hedge of a firm commitment.

FAR Question 22.
AICPA.090230FAR-SIM

Tramco has a debt investment classified as available-for-sale which is denominated in 80,000 units of a foreign currency. In order to hedge its investment, Tramco acquired a forward exchange contract for 100,000 units of the foreign currency in which its investment is denominated. During the year, the value of the investment decreased $9,000 and the value of the forward contract increased by $10,000. For the year, which one of the following amounts should Tramco recognize from the forward contract as hedging (offsetting) the decrease in value of the investment?

A. $-0-
B. $8,000
C. $9,000
D. $10,000

Because the forward contract was designated as hedging the investment, a change in the value of the investment would be offset by a change in the value of the forward contract. However, because the amount of the forward contract (100,000 foreign currency units) exceeded the amount of the investment being hedged (80,000 foreign currency units - FCU), only 80,000 FCU/100,000 FCU = .80 of the change in the forward contract can be used to offset a change in the investment. The other .20 change in the forward contract must be treated as speculative. Therefore, .80 of the $10,000 change in the value of the contract, or $8,000, can be used to offset the $9,000 change in the value of the investment. The other $2,000 must be treated as a speculative gain.

FAR ANSWERS

FAR Question 23.
AICPA.090274FAR-SIM

Which one of the following would constitute a highly inflationary economy when determining the functional currency of a foreign entity?
A. 20% inflation for each of the past 5 years.
B. 30% inflation for each of the past 3 years.
C. 35% inflation for each of the past 3 years.
D. 20%, 35%, and 40% inflation, respectively, for each of the past 3 years.

For determining a functional currency, a highly inflationary (hyperinflationary) economy is one that has experienced a cumulative inflation of 100% or more over the past 3 years. Inflation of 35% per year over the past three years is a cumulative 105% and constitutes a highly inflationary economy.

FAR Question 24.
AICPA.090276FAR-SIM

In which one of the following independent circumstances would the local foreign currency of a country likely be the functional currency for a subsidiary of a U.S. entity located in that country?
A. The economy of the foreign country in which the subsidiary is located has experienced 40% inflation for each of the last three years.
B. The subsidiary's operation is financed principally with dollars provided by the parent.
C. The subsidiary's operation is self-contained, and generates and expends cash primarily in the local foreign currency.
D. The subsidiary's operation is a direct extension of the parent's operation.

The local foreign currency of a foreign subsidiary likely would be the function currency if the subsidiary's operation is self-contained, and generates and expends cash primarily in the local foreign currency.

FAR Question 25.
AICPA.101220FAR-SIM

Layton City received a $20,000,000 federal grant to finance the construction of Charley's Place, a residential treatment center for the rehabilitation of drug and alcohol addicts. The proceeds for this grant should be accounted for in the:
A. General Fund.
B. Permanent Trust Fund.
C. Special Revenue Fund.
D. Capital Projects Fund.

Capital Project Funds are used to account for the receipt and disbursement of resources restricted to the acquisition of major capital facilities through purchase or construction other than those financed by Proprietary (e.g., utilities) or Trust Funds.

REG ANSWERS

REG Question 1.
AICPA.940519REG-AR

A tax return preparer may disclose or use tax return information without the taxpayer's consent to
A. Facilitate a supplier's or lender's credit evaluation of the taxpayer.
B. Accommodate the request of a financial institution that needs to determine the amount of taxpayer's debt to it, to be forgiven.
C. Be evaluated by a quality or peer review.
D. Solicit additional nontax business.

Disclosure or use of the information on a tax return can only be done with the written consent of the taxpayer. Absent the taxpayer's written consent, disclosure or use of the taxpayer's tax return information by a tax preparer makes the preparer subject to a penalty for knowingly or recklessly disclosing tax return information.

However, there are exceptions to the penalty. Specifically, tax preparers may disclose or use information on a tax return if the disclosure is (1) for quality or peer reviews; (2) for use in preparing state and local taxes and/or in declaring estimated taxes;(3) under code; and (4) under the order of a court of law.

Thus, disclosing information for a peer review is an allowable exception to the penalty for knowingly or recklessly disclosing tax return information.

REG Question 2.
AICPA.931101REG-BL

Beckler & Associates, CPAs, audited and gave an unqualified opinion on the financial statements of Queen Co. The financial statements contained misstatements that resulted in a material overstatement of Queen's net worth. Queen provided the audited financial statements to Mac Bank in connection with a loan made by Mac to Queen.

Beckler knew that the financial statements would be provided to Mac. Queen defaulted on the loan. Mac sued Beckler to recover for its losses associated with Queen's default.

Which of the following must Mac prove in order to recover?

I. Beckler was negligent in conducting the audit.

II. Mac relied on the financial statements.

A. I only.
B. II only.
C. Both I and II.
D. Neither I nor II.

Since Beckler knew the financial statements would be used by Mac, the only issues that remain are negligence and reliance. Both must be proven. If Beckler used due care and was not negligent, then it is not liable to Mac. Also, Mac must prove that it relied on the misstatements. If Mac knew the statements were incorrect, for example, it cannot recover from Beckler.

REG Question 3.
AICPA.970501REG-BL

Which of the following statements is generally correct regarding the liability of a CPA who negligently gives an opinion on an audit of a client's financial statements?
A. The CPA is only liable to those third parties who are in privity of contract with the CPA.
B. The CPA is only liable to the client.
C. The CPA is liable to anyone in a class of third parties who the CPA knows will rely on the opinion.
D. The CPA is liable to all possible foreseeable users of the CPA's opinion.

There are three general viewpoints regarding an accountant's liability to third parties. One view requires privity of contract for a third party to recover. Another view allows all reasonably foreseeable users of an accountant's report to sue. But the majority view, known as the Restatement view, limits an accountant's liability to a limited class of actually foreseen users.

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REG ANSWERS

This question obviously asks the student to apply the majority (Restatement) view.

REG Question 4.
AICPA.951108REG-BL

Under the "Ultramares" rule, to which of the following parties will an accountant be liable for negligence?

	Parties in privity	Foreseen parties
A.	Yes	Yes
B.	**Yes**	**No**
C.	No	Yes
D.	No	No

The "Ultramares" rule, established in a 1931 case of the same name, requires privity before an accountant is liable for negligence. Other rules, such as the Restatement rule, allow foreseeable users who rely on a negligently false statement to sue.

REG Question 5.
type.contract.sa.001_0819

Which of the following will make a contract voidable?
A. There is only a unilateral promise.
B. The subject matter is illegal.
C. One of the parties lacks capacity.
D. The contract was required to be in writing and is oral.

Correct! The party who lacks capacity has the option of honoring the contract or exercising the right to disaffirm because of the lack of capacity.

REG Question 6.
rights.part.sa.001_0819

Under agency law, which of the following statements best describes ratification?
A. A principal's affirmation of an agent's authorized act
B. A principal's affirmation of an agent's unauthorized act
C. A principal's approval in advance of an agent's acts
D. A principal's disavowal of an agent's unauthorized act

REG Question 7.
rights.part.sa.001_0819

Jack Davis borrowed $360,000 from First Bank. First Bank required three sureties for the loan. The following parties agreed to act as a surety for Davis in the following amounts: Ames—$300,000, Barclay—$180,000, and Charles—$240,000. After paying $60,000, Davis has defaulted on the loan. Charles's debts have been discharged in bankruptcy. Ames paid First Bank the $300,000 that was due. How much must Barclay pay to Ames?
A. Barclay does not owe Ames anything because First Bank can choose whichever surety it wants and collect the full amount, which releases Barclay.
B. Barclay owes his full pledge of $180,000 because of the bankruptcy of Charles.
C. Barclay owes Ames $112,500.
D. Barclay owes $66,667 to Ames.

Correct! To compute the amount owed, the denominator is $300,000 + $180,000= $480,000 (the amount that the two solvent sureties pledged) and the numerator is the amount each surety pledge. For Barclay, that is 180/480 or 3/8 X $300,000 or $112,500.

REG ANSWERS

REG Question 8.
AICPA.941148REG-BL

Which of the following facts will result in an offering of securities being exempt from registration under the Securities Act of 1933?
A. The securities are non-voting preferred stock.
B. The issuing corporation was closely held prior to the offering.
C. The sale or offer to sell the securities is made by a person other than an issuer, underwriter, or dealer.
D. The securities are AAA-rated debentures that are collateralized by first mortgages on property that has a market value of 200% of the offering price.

So that investors may sell their shares on the secondary market without having to register (unless the shares are restricted-resale shares or the investors are affiliated shareholders), Section 4(1) of the 1933 Act exempts from registration all "transactions by any person other than an issuer, underwriter, or dealer."

REG Question 9.
AICPA.060250REG-AR_2-18

Fred Zorn died on January 5, 2018, bequeathing his entire $2,000,000 estate to his sister, Ida.

The alternate valuation date was validly elected by the executor of Fred's estate. Fred's estate included 2,000 shares of listed stock for which Fred's basis was $380,000.

This stock was distributed to Ida nine months after Fred's death.

Fair market values of this stock were:

At the date of Fred's death	$400,000
Six months after Fred's death	450,000
Nine months after Fred's death	480,000

Ida's basis for the stock is:
A. $380,000
B. $400,000
C. $450,000
D. $480,000

When the alternate valuation date is elected, the basis of the property becomes its fair market value on the date that is six months after the date of death.

REG Question 10.
AICPA.901129REG-P2-AR

Fred Berk buys a plot of land with a cash payment of $40,000 and a purchase-money mortgage of $50,000. In addition, Berk pays $200 for a title insurance policy.

Berk's basis in this land is

A. $40,000
B. $40,200
C. $90,000
D. $90,200

A taxpayer's original basis in property acquired by purchase is the amount paid in cash or property and/or the liabilities incurred.

Therefore, Berk's cash payment of $40,000 and the purchase-money mortgage of $50,000 should be included in Berk's basis in the land. Payments associated with the acquisition of the property are also included in the basis of the property. Therefore, Berk's payment of $200 for a title insurance policy should also be included in Berk's basis in the land. Hence, Berk's basis in this land is $90,200, the sum of the $40,000 cash payment, $50,000 purchase-money mortgage and $200 title insurance.

REG ANSWERS

REG Question 11.
AICPA.931150FAR-P2-AR

Lee inherits a partnership interest from Dale. The adjusted basis of Dale's partnership interest is $50,000, and its fair market value on the date of Dale's death (the estate valuation date) is $70,000.

What was Lee's original basis for the partnership interest?

A. $70,000
B. $50,000
C. $20,000
D. $0

For property received from a decedent through inheritance, a taxpayer generally assumes a basis equal to the fair market value of the property at the date of the decedent's death.

Therefore, Lee's original basis in the partnership was $70,000 – the fair market value of Dale's partnership interest at the date of his death.

REG Question 12.
AICPA.120704REG

In the current year, Fitz, a single taxpayer, sustained a $48,000 loss on Code Sec. 1244 stock in JJJ Corp., a qualifying small business corporation, and a $20,000 loss on Code Sec. 1244 stock in MMM Corp., another qualifying small business corporation. What is the maximum amount of loss that Fitz can deduct for the current year?
A. $50,000 capital loss
B. $68,000 capital loss
C. $18,000 ordinary loss and $50,000 capital loss
D. $50,000 ordinary loss and $18,000 capital loss

If Section 1244 stock is sold at a loss the loss is treated as an ordinary loss up to the applicable limit. The limit applies per calendar year and is $50,000 for single taxpayers and $100,000 for those filing as married-joint. Fitz's total Section 1244 losses are $68,000 but only $50,000 of the loss is characterized as ordinary. The remaining $18,000 is treated as a capital loss since investments are a capital asset.

REG Question 13.
AICPA.010508REG-AR

Which of the following costs is not included in inventory under the Uniform Capitalization rules for goods manufactured by the taxpayer?
A. Research
B. Warehousing costs
C. Quality control
D. Taxes excluding income taxes

Taxpayers subject to the uniform capitalization rules must capitalize all direct costs and certain indirect costs properly allocable to real property and tangible personal property produced by the taxpayer, except for research and experimental expenditures.

REG ANSWERS

REG Question 14.
ITAX-0034B_0319

John Budd is single, with no dependents. During 2019, John received wages of $11,000 and state unemployment compensation benefits of $2,000. He had no other source of income. The amount of state unemployment compensation benefits that should be included in John's 2019 adjusted gross income is

A. $2,000.
B. $1,000.
C. $ 500.
D. $0.

Unemployment compensation benefits received must generally be included in gross income.

REG Question 15.
AICPA.911156REG-P2-AR_0319

Ola Associates is a limited partnership engaged in real estate development. Hoff, a civil engineer, billed Ola $40,000 in 2018 for consulting services rendered.

In full settlement of this invoice, Hoff accepted a $15,000 cash payment plus the following:

	Fair market value	Carrying amount on Ola's books
3% limited partnership interest in Ola	$10,000	N/A
Surveying equipment	7,000	$3,000

What amount should Hoff, a cash-basis taxpayer, report in his 2018 return as income for the services rendered to Ola?

A. $15,000
B. $28,000
C. $32,000
D. $40,000

The amount of income realized by a taxpayer from services rendered equals the sum of the amount of cash received and the fair market value of any property received.

Thus, Hoff would report the sum of the amount of cash received and the fair market value of any property received from Ola Associates.

Hoff received $15,000 of cash, a 3% limited partnership interest in Ola Associates with a fair market value of $10,000 and surveying equipment with a fair market value of $7,000. Hence, Hoff would report $32,000 on his return as income for the services rendered to Ola Associates.

REG Question 16.
CTAX0013B

A corporation's penalty for underpaying federal estimated taxes is

A. Not deductible.
B. Fully deductible in the year paid.
C. Fully deductible if reasonable cause can be established for the underpayment.
D. Partially deductible.

Even though a corporation's penalty for underpay-ing federal estimated taxes is in the nature of interest, it is treated as an addition to tax, and as such, the penalty is not deductible.

REG ANSWERS

REG Question 17.
AICPA.090831REG-SIM

H and W are married citizens. All of their real and personal property is owned as tenants by the entirety or as joint tenants with right of survivorship. The gross estate of the first spouse to die:

A. Includes only the property acquired by the deceased spouse.
B. Is governed by federal tax provisions rather than community property laws.
C. Includes one third of all real estate as the dower right of the first spouse to die.
D. Includes half of the value of all the property owned regardless of which spouse furnished the original consideration.

For married individuals, half of the value of jointly owned property is always included in the estate of the first spouse to die.

REG Question 18.
aicpa.sa.corp.income.002_19

Hook Corp., a calendar-year C corporation, reported the following year 2 financial information:

Net income per books	$210,000
Federal income taxes per books	114,000
Tax depreciation in excess of book depreciation	66,000
Charitable contributions per books	46,000

What is Hook's taxable income?

A. $390,000
B. $273,600
C. $229,500
D. $212,000

Correct. The federal income taxes per books do not reduce taxable income. The additional tax depreciation in excess of book depreciation reduces taxable income. The charitable contribution of $46,000 is limited to 10% of taxable income before the contribution for tax purposes.

Book income	*$210,000*
+ Federal income taxes	*114,000*
+ Charitable contribution	*46,000*
– Excess tax depreciation	*(66,000)*
Taxable income before contribution	*$304,000*
Less charitable contribution for tax (limited to 10% of taxable income)	*(30,400)*
Taxable income	*$273,600*

REG Question 19.
AICPA.910547REG-P2-AR_1808

The corporate dividends-received deduction

A. Must exceed the applicable percentage of the recipient shareholder's taxable income.
B. Is affected by a requirement that the investor corporation must own the investee's stock for a specified minimum holding period.
C. Is unaffected by the percentage of the investee's stock owned by the investor corporation.
D. May be claimed by S corporations.

A C corporation owning less than 20% of a domestic corporation may deduct 50% of dividends received or accrued from that corporation. Owning 20% or more but less than 80% of a domestic corporation allows for the deduction of 65% of the dividends received or accrued from that corporation. Similarly, if a C corporation owns 80% or more of a domestic corporation, it may deduct 100% of the dividends received or accrued from that corporation.

REG ANSWERS

However, the dividend received deduction is limited to a percentage of the taxable income of the corporation, unless the corporation sustains a net operating loss. If the corporation has a net operating loss, the dividend received deduction may be taken without limiting the deduction to a percentage of the corporation's taxable income. To qualify for the dividends received deduction, the C corporation must hold the stock or securities for at least 46 days.

Since this response indicates that the corporate dividend received deduction is affected by a requirement that the investor corporation must own the investee's stock for a specified minimum holding period, it is correct.

REG Question 20.
AICPA.900534REG-P2-AR_0319

John Budd is the sole stockholder of Ral Corp., an accrual basis taxpayer engaged in wholesaling operations. Ral's retained earnings at January 1, 2019, amounted to $1,000,000.

For the year ended December 31, 2019, Ral's book income, before federal income tax, was $300,000. Included in the computation of this $300,000 were the following:

Dividends received on 500 shares of stock of a taxable domestic corporation that had 1,000,000 shares of stock outstanding (Ral had no portfolio indebtedness)	$ 1,000
Loss on sale of investment in stock of unaffiliated corporation (this stock had been held for two years; Ral had no other capital gains or losses)	(5,000)
Keyman insurance premiums paid on Budd's life (Ral is the beneficiary of this policy)	3,000
Group term insurance premiums paid on $10,000 life insurance policies for each of Ral's four employees (the employees' spouses are the beneficiaries)	4,000
Amortization of cost of acquiring a perpetual dealer's franchise (Ral paid $48,000 for this franchise on July 1, 2018, and is amortizing it over a 48-month period)	6,000
Contribution to a recognized, qualified charity (this contribution was authorized by Ral's board of directors in December 2019, to be paid on January 31, 2020)	75,000

With regard to Ral's contribution to the recognized, qualified charity, Ral
A. Can elect to deduct in its 2019 return any portion of the $75,000 that does not exceed the deduction ceiling for 2019.
B. Cannot deduct any portion of the $75,000 in 2019 because the contribution was not paid in 2019.
C. Can deduct the entire $75,000 in its 2019 return because Ral reports on the accrual basis.
D. Can elect to carry forward indefinitely any portion of the $75,000 not deducted in 2019 or 2020.

Accrual based corporations may deduct all or part of a charitable contribution paid after the end of its tax year, if its board authorized the contribution prior to the end of its tax year and the contribution is paid within the first 3½ months after the end of its tax year. A corporation elects to use the deduction by including it on their tax return and attaching a copy of the Board of Directors' resolution to the return. Since Ral Corp.'s board authorized the contribution in December 2019 and the dividends were to be paid on January 31, 2020 (within the first 3½ months after the end of the corporation's tax year), the corporation can elect to deduct in 2019 any portion of the $75,000 that does not exceed the deduction ceiling for 2019.

REG Question 21.
OTAX-0045B

If an exempt organization is a corporation, the tax on unrelated business taxable income is
A. Computed at corporate income tax rates.
B. Computed at rates applicable to trusts.
C. Credited against the tax on recognized capital gains.
D. Abated.

An exempt organization's unrelated business income in excess of $1,000 is taxed at regular corporate income tax rates if the organization is a corporation. An exempt organization must be a trust in order for its unrelated business income to be taxed at the rates applicable to trusts.

REG ANSWERS

REG Question 22.
AICPA.931160REG-P2-AR_0319

On June 30, 2018, Berk retired from his partnership.

At that time, his capital account was $50,000 and his share of the partnership's liabilities was $30,000. Berk's retirement payments consisted of being relieved of his share of the partnership liabilities and receipt of cash payments of $5,000 per month for 18 months, commencing July 1, 2018.

Assuming Berk makes no election with regard to the recognition of gain from the retirement payments, he should report income therefrom of

	2019	2020
A.	$13,333	$26,667
B.	$20,000	$20,000
C.	$40,000	$40,000
D.	$0	$40,000

A. Row A
B. Row B
C. Row C
D. Row D

Payments received by a retiring partner from the partnership in exchange for the partner's interest in the partnership receive similar treatment to the receipt of a liquidating distribution. Thus, the retiring partner recognizes income only to the extent that "money" received exceeds the partner's basis in the partnership interest. The assumption of a partner's liabilities is viewed as being a "money" payment.

Immediately before retiring from the partnership, Berk had a balance of $50,000 in his capital account and his share of the liabilities amounted to $30,000, putting his adjusted basis in the partnership interest at $80,000. Berk's retirement payments consisted of being relieved of his share of the partnership liabilities and receipt of cash payments of $5,000 per month for 18 months, commencing July 1, 2019. Thus, in 2019, Berk would receive $60,000 in distributions of "money," $30,000 in liabilities assumed and $30,000 in cash payments ($5,000 per month multiplied by 6 months). The payments made to Berk in 2020 are not recognized in 2019 because Berk had no right to receive the income until paid in 2020.

Since Berk's basis in the partnership interest, $80,000, is greater than the amount of "money'" received, $60,000, Berk would not recognize any income in 2019. This transaction would reduce Berk's basis in the partnership interest by the $60,000 of income not recognized, going from $80,000 immediately before Berk retired to $20,000 at the end of 2019. Berk received an additional $60,000 in cash payments ($5,000 per month multiplied by 12 months) in 2019. Of this amount, Berk would recognize $40,000 in 2020, the $60,000 in cash payments less the $20,000 in basis not absorbed at the end of 2019.

Thus, Berk should not report any income from the retirement payments received in 2019, but he should report $40,000 from the payments in 2020.

REG Question 23.
aicpa.sa.trans.part.001_19

Danson and Ellerby are equal partners in DE Partnership, which is in the business of selling fine art. DE owns assets with a tax basis and fair market value of $240,000. In January of the current year, Finley contributes to the partnership some personal investment art with a fair market value of $120,000 (tax basis $80,000) to become a one third partner in the new DEF partnership. In October of the current year, DEF sells the art received from Finley for $141,000. What amount of gain from the sale of the artwork should be allocated to Finley?
A. $7,000
B. $20,333
C. $40,000
D. $47,000

REG ANSWERS

Finley has built-in gain of $40,000 ($120,000 – $80,000) on the art. When the partnership sells the art, the first $40,000 of gain must be allocated to Finley.

Amount realized	*$141,000*
Adjusted basis	*(80,000)*
Recognized gain	*$ 61,000*

The first $40,000 of gain is allocated to Finley. The remaining $21,000 of gain is allocated equally to each partner, so Finley receives $7,000 of this gain. Thus, Finley's total gain allocation is $47,000 ($40,000 + $7,000).

REG Question 24.
AICPA.911124REG-P2-AR

The standard deduction for a trust or an estate in the fiduciary income tax return is
A. $0
B. $650
C. $750
D. $800

The standard deduction for a trust or an estate in the fiduciary income tax return is zero.

REG Question 25.
AICPA.910537REG-P2-AR

An executor of a decedent's estate that has only U.S. citizens as beneficiaries is required to file a fiduciary income tax return, if the estate's gross income for the year is at least
A. $400
B. $500
C. $600
D. $1,000

An executor of a decedent's estate that has only U.S. citizens as beneficiaries is required to file a fiduciary income tax return, Form 1041, if the estate has either gross income for the year of at least $600 or taxable income for the year.

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