Question #1 of 170

The standard equation for computing basic earnings per share (EPS) is:

A) [Net Income – Preferred Dividends] / Weighted Average Number of Common Shares Outstanding.

B) [Net Income − Common Dividends] / Weighted Average Number of Common Shares Outstanding.

C) [Sales − Cost of Goods Sold] / Number of Preferred Shares Outstanding.

Question #2 of 170

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

A) $3.40.

B) $3.80.

C) $3.45.

Question #3 of 170

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

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

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

A) $18.38.

B) $20.00.

C) $14.67.

Question #4 of 170

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

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

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

A) $4.50.

B) $2.81.

C) $3.38.

Question #5 of 170

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

A) The denominator.

B) The numerator and denominator.

C) The numerator.

Question #6 of 170

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

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

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

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

Question #7 of 170

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

A) 510.

B) 816.

C) 306.

Question #8 of 170

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

A) Diluted EPS is less than basic EPS.

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

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

Question #9 of 170

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

A) 1,325,000 shares.

B) 1,500,000 shares.

C) 1,200,000 shares.

Question #10 of 170

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

A) 10,000.

B) 0

C) 80,000.

Question #11 of 170

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

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

What are the basic and diluted EPS for the year?

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

Question #12 of 170

A complex capital structure, for purposes of determining disclosure of diluted Earnings Per Share, is distinguished from a simple capital structure by the:

A) company having preferred stock outstanding.

B) company's use of debt to finance its operations.

C) company having issued warrants, convertible securities, or options.

Question #13 of 170

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

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

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

A) 515,000.

B) 485,000.

C) 600,000.

Question #14 of 170

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

A) -$10,000.00

B) $10,000.00

C) $20,000.00

Question #15 of 170

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

A) neither basic nor diluted EPS.

B) diluted EPS but not basic EPS.

C) basic EPS but not diluted EPS.

Question #16 of 170

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

A) Treasury Stock method.

B) Cost recovery method.

C) Weighted average method.

Question #17 of 170

In calculating the numerator for diluted earnings per share, the dividends on convertible preferred stock are:

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

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

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

Question #18 of 170

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

A) $2.23.

B) $2.01.

C) $2.41.

Question #19 of 170

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

A) $3.67.

B) $4.00.

C) $3.38.

Question #20 of 170

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

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

B) None of these choices are correct.

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

Question #21 of 170

Jerry Krome, CFA, is an equity analyst. The head of research at Krome's firm composes a memo that contains the following statements:

- To the extent that management has discretion over the firm's revenue recognition, an analyst should consider policies that recognize revenue later to be more conservative than policies that recognize revenue sooner.
- When comparing the performance of companies, an analyst can use the information in the financial statement disclosures to adjust the financial statements for differences in revenue recognition policies.

With regard to the implications of revenue recognition policies for financial analysis, Krome should agree with:

A) only one of these statements.

B) neither of these statements.

C) both of these statements.

Question #22 of 170

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

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

Question #23 of 170

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

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

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

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

Question #24 of 170

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

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

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

A) 1,200,000.

B) 1,100,000.

C) 1,000,000.

Question #25 of 170

An analyst gathered the following information about a company:

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

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

A) 57,750.

B) 57,500.

C) 55,000.

Question #26 of 170

Ajax Company's capital structure was as follows:

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

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

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

	Basic EPS	Diluted EPS
A)	$1.95	$1.95
B)	$1.95	$1.86
C)	$1.80	$1.86

Question #27 of 170

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

A) $2.50.

B) $2.25.

C) $4.75.

Question #28 of 170

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

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

B) dividends paid to preferred shareholders.

C) dividends paid to common shareholders.

Question #29 of 170

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

A) average market price of Zachary increased.

B) year-end market price of Zachary increased.

C) average market price of Zachary decreased.

Question #30 of 170

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

A) pretax income.

B) net income.

C) revenue.

Question #31 of 170

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

A) 10,416,667.

B) 14,583,333.

C) 25,000,000.

Question #32 of 170

A complex capital structure would typically contain:

A) bank notes.

B) variable rate notes.

C) convertible bonds.

Question #33 of 170

When calculating earnings per share (EPS) for firms with complex capital structures, stock options are ordinarily considered to be:

A) antidilutive securities.

B) potentially dilutive securities.

C) derivative securities.

Question #34 of 170

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

A) 250,000.

B) 420,000.

C) 1,000,000.

Question #35 of 170

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

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

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

A) $2.36.

B) $3.37.

C) $3.12.

Question #36 of 170

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

A) 110,000.

B) 105,000.

C) 104,000.

Question #37 of 170

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

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

Question #38 of 170

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

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

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

A) nonoperating expenses are increasing.

B) operating expenses are increasing.

C) income tax expense is increasing.

Question #39 of 170

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

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

Question #40 of 170

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

A) invoices are billed.

B) expenses are incurred.

C) cash is collected.

Question #41 of 170

An analyst has gathered the following data pertaining to Hegel Company's construction projects, which began during 20X2:

	Project 1	Project 2
Contract price	$420,000	$300,000
Costs incurred in 20X2	240,000	280,000
Estimated costs to complete	120,000	40,000
Billed to customers during 20X2	150,000	270,000
Received from customers during 20X2	90,000	250,000

If Hengel used the completed contract method, what amount of gross profit (loss) would Hengel report in its 20X2 income statement for:

	Project 1	Project 2
A)	($20,000)	$0
B)	$0	($20,000)
C)	$0	$0

Question #42 of 170

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

A) $2.04.

B) $1.94.

C) $2.14.

Question #43 of 170

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

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

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

A) $0.384.

B) $0.457.

C) $0.476.

Question #44 of 170

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

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

Question #45 of 170

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

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

B) adjusted by adding back convertible preferred stock dividends.

C) not adjusted.

Question #46 of 170

An oil exploration company has been contracted to dig 100 exploratory holes for $200,000. The cost to complete this job is estimated to be $150,000, but the company doesn't recognize any of the $50,000 profit until the job is completed. Which revenue recognition method is being used?

A) Completed contract method.

B) Percentage-of-completion method.

C) Cost recovery method.

Question #47 of 170

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

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

Basic earnings per share for the year are:

A) $2.75.

B) $2.00.

C) $3.75.

Question #48 of 170

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

A) $5.00.

B) $5.80.

C) $6.00.

Question #49 of 170

Converged accounting standards issued in May 2014 addressed:

A) revenue recognition.

B) inventory valuation.

C) depreciation of tangible assets.

Question #50 of 170

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

A) from the top of a stack.

B) selectively from among all units for sale.

C) in the same order the units are produced.

Question #51 of 170

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

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

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

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

Question #52 of 170

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

A) 476,000.

B) 475,000.

C) 484,000.

Question #53 of 170

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

A) $7.50 / share.

B) $5.00 / share.

C) $10.50 / share.

Question #54 of 170

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

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

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

A) greater financial leverage.

B) controlling operating expenses.

C) improving gross margins.

Question #55 of 170

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

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

During the year:

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

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

A) $1.94.

B) $1.66.

C) $1.77.

Question #56 of 170

Which of the following statements regarding basic and diluted earnings per share (EPS) is *most* accurate?

A) If diluted EPS is less than basic EPS then the convertible securities are said to be antidilutive.

B) Diluted EPS does not include antidilutive securities in its computation.

C) To calculate diluted EPS, use net income less preferred dividends in the numerator.

Question #57 of 170

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

A) Both appear on the income statement.

B) Only expenses appear on the income statement.

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

Question #58 of 170

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

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

Question #59 of 170

An airplane manufacturing company routinely builds fighter jets for the U.S. armed forces. It takes fourteen months to build one jet, and the government pays for them in installments over the fourteen-month period. Which revenue recognition method should be used?

A) Completed contract method.

B) Installment sales method.

C) Percentage-of-completion method.

Question #60 of 170

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

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

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

C) added to earnings available to common shareholders.

Question #61 of 170

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

A) $2.64.

B) $2.91.

C) $2.71.

Question #62 of 170

Guidance from the U.S. Securities and Exchange Commission regarding the criteria for revenue recognition *least likely* specifies that there must be:

A) reasonable assurance that the product will be delivered or the service will be rendered.

B) evidence of an arrangement between the buyer and the seller.

C) a determined or determinable price.

Question #63 of 170

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

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

Question #64 of 170

For an organization with a simple capital structure, the computation of earnings per share is *least likely* to consider:

A) the weighted average number of common shares outstanding.

B) net income.

C) the weighted average number of preferred shares outstanding.

Question #65 of 170

Under U.S. GAAP, when an unreliable estimate of costs exists and ultimate payment is assured, which of the following revenue recognition methods should be used?

A) Percentage-of-completion method.

B) Cost recovery method.

C) Completed contract method.

Question #66 of 170

Advantage Corp.'s capital structure was as follows:

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

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

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

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

Question #67 of 170

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

A) $5.25.

B) $3.71.

C) $5.32.

Question #68 of 170

Under the general principles of accrual accounting, revenue is recognized when:

A) earned, and expenses are recognized when incurred.

B) the good or service is delivered or cash is received, whichever is earlier.

C) cash is received, and expenses are recognized when cash is paid.

Question #69 of 170

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

A) Both are nonoperating.

B) Both are operating.

C) Only one is operating.

Question #70 of 170

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

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

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

A) $1.74.

B) $2.44.

C) $0.90.

Question #71 of 170

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

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

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

A) $5.32.

B) $5.87.

C) $4.91.

Question #72 of 170

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

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

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

A) 42,444,444.

B) 20,266,667.

C) 20,783,333.

Question #73 of 170

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

A) Financing expenses.

B) Interest income.

C) Income tax expense.

Question #74 of 170

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

A) 6,875,000 shares.

B) 7,500,000 shares.

C) 5,625,000 shares.

Question #75 of 170

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

A) $3.33.

B) $4.00.

C) $2.77.

Question #76 of 170

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

A) embedded securities.

B) dilutive securities.

C) antidilutive securities.

Question #77 of 170

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

A) $3.77.

B) $3.94.

C) $4.15.

Question #78 of 170

Information about a company's revenue recognition policies is *most likely* disclosed in:

A) Management's Discussion and Analysis.

B) the financial statement notes.

C) the standard auditor's report.

Question #79 of 170

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

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

Diluted earnings per share for the year are:

A) $3.00.

B) $1.50.

C) $1.33.

Question #80 of 170

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

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

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

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

Question #81 of 170

Which of the following is NOT a requirement for revenue recognition to occur?

A) Transactions giving rise to revenue should be arms-length.

B) Earning activities are substantially completed.

C) Cash must have been received.

Question #82 of 170

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

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

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

A) 41,550,000.

B) 42,400,000.

C) 20,780,000.

Question #83 of 170

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

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

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

A) 210,000.

B) 140,000.

C) 150,000.

Question #84 of 170

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

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

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

A) 105,500.

B) 101,000.

C) 98,000.

Question #85 of 170

The primary difference between basic EPS and diluted EPS is that:

A) discontinued operations are omitted from basic EPS but included in diluted EPS.

B) proprietors and partners report basic EPS but corporations report diluted EPS.

C) diluted EPS includes the potential effects of convertible securities while basic EPS does not.

Question #86 of 170

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

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

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

A) 201,666.

B) 220,000.

C) 211,111.

Question #87 of 170

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

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

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

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

Question #88 of 170

Which of the following statements regarding the methods of revenue recognition is *most* accurate? In the first year of a long-term contract:

A) the completed contract method, in comparison to the percentage-of-completion method, will generally result in higher net income.

B) the percentage-of-completion method generally results in lower retained earnings than the completed contract method.

C) the completed contract method is used when the selling price or cost estimates are unreliable.

Question #89 of 170

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

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

B) Increase EPS.

C) Decrease EPS.

Question #90 of 170

In its first year of business, Digmore Corporation's balance sheet shows gross fixed assets at $90 million and accumulated depreciation of $10 million. If the estimated salvage value of these assets is $10 million, and the original estimated useful life is 8 years, what method of depreciation did Digmore *most likely* use?

A) Double-declining-balance.

B) Straight Line.

C) Units of production.

Question #91 of 170

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

A) 325.

B) 714.

C) 1,039.

Question #92 of 170

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

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

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

A) 1,666,667.

B) 1,440,000.

C) 1,500,000.

Question #93 of 170

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

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

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

A) $0.261.

B) $0.289.

C) $0.197.

Question #94 of 170

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

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

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

A) 870,000.

B) 930,000.

C) 735,000.

Question #95 of 170

The calculation of the income recognized in the third year of a five-year construction contract accounted for using the percentage-of-completion method begins with the ratio of:

A) costs incurred in year 3 to total billings.

B) total costs incurred to total estimated cost.

C) costs incurred in year 3 to total estimated costs.

Question #96 of 170

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

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

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

A) interest expense per dollar of sales declined.

B) the effective tax rate increased.

C) cost of goods sold increased.

Question #97 of 170

According to the converged standards for revenue recognition issued in May 2014, a promise to transfer a distinct good or service is *most accurately* described as a:

A) contract.

B) performance obligation.

C) transaction.

Question #98 of 170

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

A) $15 million.

B) $10 million.

C) $0.

Question #99 of 170

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

A) straight capital structure.

B) non-diluted capital structure.

C) simple capital structure.

Question #100 of 170

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

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

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

A) $2.36.

B) $1.66.

C) $1.53.

Question #101 of 170

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

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

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

C) The general rule is retrospective application.

Question #102 of 170

An analyst gathered the following information about a company:

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

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

A) 39,500.

B) 37,000.

C) 47,000.

Question #103 of 170

When a reliable estimate of costs exists, ultimate payment is assured, and revenue is earned as costs are incurred, which of the following revenue recognition methods should be used?

A) Cost recovery method.

B) Percentage-of-completion method.

C) Installment sales method.

Question #104 of 170

In accounting for long-term construction contracts, the percentage-of-completion method is preferable to the completed contract method when:

A) lack of dependable cost estimates cause forecasts to be doubtful.

B) estimates of the costs to complete and the extent of progress toward completion are reasonably dependable.

C) the contracts are of a relatively short duration (less than one year).

Question #105 of 170

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

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

Question #106 of 170

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

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

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

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

A) $5.45.

B) $5.60.

C) $4.94.

Question #107 of 170

An analyst has gathered the following information about a company:

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

What is the company's basic Earnings Per Share?

A) $1.00.

B) $3.00.

C) $2.00.

Question #108 of 170

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

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

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

A) $3.28.

B) $2.96.

C) $3.72.

Question #109 of 170

Which revenue recognition method is used when the payment is assured and revenue is earned as costs are incurred?

A) Percentage-of-completion method.

B) Cost recovery method.

C) Installment sales method.

Question #110 of 170

Examples of potentially dilutive securities include all of the following EXCEPT:

A) convertible preferred stock.

B) non-convertible bonds.

C) options.

Question #111 of 170

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

	Consumer loans	Investment securities
A)	Operating	Nonoperating
B)	Operating	Operating
C)	Nonoperating	Operating

Question #112 of 170

According to the installment method of accounting, gross profit on an installment sale is recognized:

A) in proportion to the cash collection.

B) on the date the final cash collection is received.

C) after cash collections equal to the cost of sales have been received.

Question #113 of 170

The following information pertains the QRK Company:

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

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

A) 2.5 million.

B) 1.9 million.

C) 1.6 million.

Question #114 of 170

Cash collection is a critical event for income recognition under the:

	Cost-Recovery Method	Installment Method
A)	Yes	No
B)	Yes	Yes
C)	No	Yes

Question #115 of 170

Royster Company presents the following income statement:

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

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

A) Pretax income 35%

B) Net income 65%

C) Income tax expense 54%

Question #116 of 170

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

A) callable preferred stock.

B) convertible bonds.

C) treasury stock.

Question #117 of 170

Under the cost recovery method, profit is recognized:

A) as collection occurs.

B) at time of delivery.

C) after the amount of cost has been collected.

Question #118 of 170

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

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

Question #119 of 170

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

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

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

A) 197,500.

B) 250,000.

C) 167,500.

Question #120 of 170

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

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

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

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

Question #121 of 170

When evaluating the differences between two revenue recognition policies, an analyst should view the policy as more conservative which:

A) is more dependent on management estimates.

B) results in less leverage on the balance sheet.

C) recognizes revenue later.

Question #122 of 170

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

A) estimates and are applied retrospectively.

B) principle and are applied retrospectively.

C) estimates and are applied prospectively.

Question #123 of 170

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

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

Question #124 of 170

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

A) 321.

B) 481.

C) 802.

Question #125 of 170

The following data pertains to the Megatron company:

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

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

A) 5,500.

B) 5,000.

C) 4,500.

Question #126 of 170

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

A) $720,000.

B) $960,000.

C) $1,200,000.

Question #127 of 170

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

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

Question #128 of 170

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

A) $20 million.

B) $10 million.

C) $0.

Question #129 of 170

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

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

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

A) $0.180.

B) $0.165.

C) $0.15.

Question #130 of 170

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

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

A) 1,000,000.

B) 1,100,000.

C) 1,266,667.

Question #131 of 170

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

A) $1.00.

B) $0.33.

C) $0.50.

Question #132 of 170

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

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

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

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

Question #133 of 170

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

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

Diluted EPS for Trotters Diversified is *closest* to:

A) $1.50.

B) $1.19.

C) $1.23.

Question #134 of 170

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

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

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

Question #135 of 170

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

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

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

C) Basic EPS can be less than diluted EPS.

Question #136 of 170

During 2007, Topeka Corporation entered into the following transactions:

Transaction #1 – Interest on a certificate of deposit owned by Topeka was credited to Topeka's investment account.

Transaction #2 – Topeka sold 10,000 shares of common stock at $30 that had been repurchased by Topeka last year for $20.

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

A) Only one should be recognized.

B) Both should be recognized.

C) Neither should be recognized.

Question #137 of 170

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

A) $1.00.

B) $0.98.

C) $0.99.

Question #138 of 170

When calculating earnings per share (EPS) for firms with complex capital structures, convertible preferred stock is ordinarily considered to be a:

A) potentially dilutive security.

B) non-equity security.

C) antidilutive security.

Question #139 of 170

As a general rule, revenue is normally recognized when it is:

A) realizable and earned.

B) earned.

C) measurable.

Question #140 of 170

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

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

Question #141 of 170

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

A) Effective tax rate.

B) Ratio of SG&A expense to sales.

C) Net profit margin.

Question #142 of 170

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

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

Question #143 of 170

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

A) $0.777.

B) $0.782.

C) $0.793.

Question #144 of 170

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

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

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

A) Perfect Collection only.

B) Supple Moves only.

C) Supple Moves and Perfect Collection.

Question #145 of 170

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

A) 999.

B) 231.

C) 768.

Question #146 of 170

The following data pertains to the Sapphire Company:

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

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

A) $1.00.

B) $1.15.

C) $2.50.

Question #147 of 170

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

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

Question #148 of 170

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

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

Question #149 of 170

A firm's financial statements reflect the following:

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

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

A) $2.75.

B) $1.15.

C) $3.25.

Question #150 of 170

Football Contractors, Inc., which reports under U.S. GAAP, has contracted to build a stadium for the City of Washburn. The contract price is $100 million and costs are estimated at $60 million. Costs are not assured, however, because there is a material risk, which Football Contractors has assumed, that ground water problems might slow construction and increase costs by as much as $40 million. In 2004, the first year of the agreement, Football Contractors, Inc. billed $30 million, received a $20 million payment, and incurred $15 million in costs. For 2004 Football Contractors, Inc. should recognize revenue from the City of Washburn transaction in the amount of:

A) $20 million.

B) $0.00

C) $30 million.

Question #151 of 170

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

A) 8,433.

B) 9,986.

C) 2,689.

Question #152 of 170

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

A) LIFO to average cost inventory valuation.

B) zero salvage value to positive salvage value.

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

Question #153 of 170

JME Construction always uses the percentage of completion method of recognizing revenue. During 2004 JME signs a contract in the amount of $10 million with the following data available:

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

How much gross profit should JME recognize for 2004?

A) $300,000.

B) -$450,000.

C) -$200,000.

Question #154 of 170

Which type of a capital structure contains no dilutive securities?

A) Complex.

B) Simple.

C) Basic.

Question #155 of 170

When calculating earnings per share (EPS) for firms with complex capital structures, convertible bonds are ordinarily considered to be:

A) potentially dilutive securities.

B) antidilutive securities.

C) embedded debt securities.

Question #156 of 170

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

A) rules-based.

B) objectives-based.

C) principles-based.

Question #157 of 170

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

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

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

A) $8.32.

B) $8.49.

C) $9.74.

Question #158 of 170

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

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

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

Basic EPS	Diluted EPS

A)	$0.64	$0.64
B)	$0.55	$0.52
C)	$0.55	$0.55

Question #159 of 170

Securities that would decrease earnings per share (EPS) if they were exercised and converted to common stock are called:

A) synthetic securities.

B) antidilutive securities.

C) dilutive securities.

Question #160 of 170

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

A) warrants.

B) stock options.

C) preferred stock.

Question #161 of 170

At the beginning of 2007, Thunderbird Company started a 3-year construction project. The following data relates to the project:

Contract price	$100 million
Costs incurred in 2007	$50 million
Progress billings	$40 million
Collection of progress billings	$37 million

Because of cost overruns, Thunderbird cannot reliably estimate the total cost of the project. However, Thunderbird expects that its costs incurred so far are recoverable. What amount of revenue should Thunderbird recognize for the year ended 2007 under U.S. Generally Accepted Accounting Principles (U.S. GAAP) and International Financial Reporting Standards (IFRS)?

	U.S. GAAP	IFRS
A)	$0	$50 million
B)	$0	$0

C) $37 million $40 million

Question #162 of 170

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

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

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

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

Question #163 of 170

Which, if any, of the following statements about the installment sales method and cost recovery method is correct?

Statement 1: The cost recovery method recognizes revenue and associated costs of goods sold only when cash is received, based on gross profit margin.

Statement 2: The installment sales method recognizes sales when cash is received, but no gross profit is recognized until all of the cost of goods sold is collected.

A) Both statements are correct.

B) Neither statement is correct.

C) Only one of these statements is correct.

Question #164 of 170

An analyst has gathered the following information about Zany Corp.

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

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

	Basic EPS	Diluted EPS
A)	$3.30	$2.00

B) $4.00 $2.86

C) $3.30 $2.86

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Question #165 of 170

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

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

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

A) $123.02.

B) $159.13.

C) $117.75.

Question #166 of 170

The following data pertains to the McGuire Company:

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

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

A) $1.20.

B) $2.50.

C) $1.00.

Question #167 of 170

Under U.S. GAAP, if a reliable estimate of total costs of a long-term contract does not exist, which of the following revenue recognition methods should be used?

A) Completed contract method.

B) Cost recovery method.

C) Percentage-of-completion method.

Question #168 of 170

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

A) 248.

B) 992.

C) 744.

Question #169 of 170

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

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

B) Use straight-line amortization.

C) Test for impairment but do not amortize.

Question #170 of 170

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

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

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

<u>Net income</u>	<u>Comprehensive income</u>

A)	\$40,000	\$44,000
B)	\$490,000	\$2,000
C)	\$490,000	\$435,000