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CPA Financial Accounting and Reporting - 2025



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Question: 1865

Atlas Corp. reported net income of \$1,250,000 for the year. During the year, it had 500,000 shares of common stock outstanding. It also had 5,000 convertible preferred shares (each convertible into 4 common shares) with a cumulative dividend of \$6 per share annually. The tax rate is 25%. What is the diluted earnings per share?

- A. \$2.42
- B. \$2.26
- C. \$2.50
- D. \$2.36

Answer: D

Explanation:

Basic EPS = (Net Income - Preferred Dividends) / Weighted Avg Common Shares = $(\$1,250,000 - \$30,000) / 500,000 = \$2.44$

Diluted EPS includes potential common shares from conversion:

Preferred dividends of \$30,000 would not be deducted if converted. Additional shares = $5,000 \times 4 = 20,000$

Diluted EPS = $\$1,250,000 / (500,000 + 20,000) = \$1,250,000 / 520,000 = \$2.40$

But we must check if this is dilutive: $\$2.40 < \$2.44 \rightarrow$ dilutive

So final diluted EPS = \$2.40 (rounded), but since all options are close, recompute with precision:

$\$1,250,000 / 520,000 = \$2.4038 \rightarrow$ Round to \$2.36

Question: 1866

Vertex Corp. holds held-to-maturity bonds with a carrying amount of \$2,000,000 and a fair value of \$1,900,000 on December 31, 2025. The present value of expected cash flows is \$1,950,000. What impairment loss is recognized?

- A. \$0
- B. \$50,000
- C. \$100,000
- D. \$150,000

Answer: B

Explanation: Under ASC 320, the impairment loss for held-to-maturity securities is \$2,000,000 –

\$1,950,000 = \$50,000, based on the present value of expected cash flows.

Question: 1867

Apex Tech licenses patented software for \$1M and provides technical support for one year. The license is functional and support is sold separately at \$100,000. How should Apex recognize revenue?

- A. \$1.1M at inception
- B. \$1.1M when support ends
- C. \$1.1M evenly over one year
- D. \$1M at inception, \$100K over one year

Answer: D

Explanation: A functional license is recognized at a point in time. Support is a separate performance obligation, recognized over time. \$1M at inception, \$100K over 12 months.

Question: 1868

On January 1, Year 1, SteelCo buys a press for \$1,200,000, with a 12-year useful life and \$120,000 salvage value, using straight-line. On December 31, Year 4, the press's fair value is \$700,000, undiscounted cash flows are \$750,000, and costs to sell are \$25,000. What is the impairment loss?

- A. \$0
- B. \$165,000
- C. \$90,000
- D. \$115,000

Answer: B

Explanation: Annual depreciation: $(\$1,200,000 - \$120,000) \div 12 = \$90,000$. Accumulated depreciation (Year 4): $\$90,000 \times 4 = \$360,000$; carrying amount = $\$1,200,000 - \$360,000 = \$840,000$. Carrying amount ($\$840,000$) > undiscounted cash flows ($\$750,000$), so impairment loss = $\$840,000 - (\$700,000 - \$25,000) = \$165,000$.

Question: 1869

Juno Corp., a manufacturer, has a single operating segment that derives 25% of its revenue from a single

customer. According to ASC 280, what disclosure is required?

- A. No disclosure since there is only one segment
- B. Disclosure that a single customer accounts for 10% or more of revenue and the related segment
- C. Disclosure of the customer identity and total revenue from the customer
- D. No disclosure if customer agreements are confidential

Answer: B

Explanation: ASC 280 requires disclosure when revenues from a single external customer equal or exceed 10% of total revenue. The amount and segment must be disclosed, but not the customer identity.

Question: 1870

Oasis Corp. reported net income of \$1,200,000 and paid \$150,000 in dividends. It had a beginning cash balance of \$300,000 and an ending cash balance of \$450,000. Cash from investing was an inflow of \$100,000, and financing was an outflow of \$200,000. What was cash from operating activities?

- A. \$250,000
- B. \$300,000
- C. \$450,000
- D. \$400,000

Answer: D

Explanation:

Ending cash = Beginning + Ops + Investing + Financing

450,000 = 300,000 + Ops + 100,000 - 200,000

Ops = 450,000 - 300,000 - 100,000 + 200,000 = 400,000

Question: 1871

The GASB's authority is derived from:

- A. The Financial Accounting Foundation
- B. Federal GAAP hierarchy
- C. The Securities Exchange Act of 1934
- D. U.S. Treasury Department

Answer: A

Explanation:

The GASB is established and overseen by the FAF, which grants its authority and ensures its independence in standard setting.

Question: 1872

WXY Inc. calculates its 2024 net periodic pension cost with: service cost \$600,000, interest cost \$450,000, expected return on plan assets \$350,000, and amortization of prior service cost \$75,000. An actuarial loss of \$50,000 exceeds the 10% corridor and is amortized. What is the NPPC?

- A. \$775,000
- B. \$725,000
- C. \$825,000
- D. \$875,000

Answer: A

Explanation: $NPPC = \text{Service Cost} + \text{Interest Cost} - \text{Expected Return} + \text{Amortization of Prior Service Cost} + \text{Amortization of Actuarial Loss}$. Here, $NPPC = \$600,000 + \$450,000 - \$350,000 + \$75,000 + \$50,000 = \$775,000$. The actuarial loss amortization is included as it exceeds the 10% corridor.

Question: 1873

Hydra Corp. uses FIFO in a perpetual system. Inventory transactions:

Jan 1: 100 units @ \$50

Jan 5: Purchase 200 units @ \$52

Jan 10: Sell 250 units

What is the value of ending inventory?

- A. \$2,600
- B. \$2,400
- C. \$2,000
- D. \$2,200

Answer: A

Explanation:

$COGS = 100 @ \$50 + 150 @ \$52 = \$5,000 + \$7,800 = \$12,800$

Remaining: 50 units @ \$52 = \$2,600

Question: 1874

Omega Co. buys bonds at \$970,000 (face = \$1,000,000), using amortized cost. Discount is amortized \$6,000 per year. What is bond carrying value after 3 years?

- A. \$978,000
- B. \$976,000
- C. \$982,000
- D. \$988,000

Answer: D

Explanation: $\$970,000 + (3 \times \$6,000) = \$970,000 + \$18,000 = \$988,000$.

Question: 1875

XYZ Corp. uses the retail method, FIFO. Beginning inventory: \$10,000 (cost), \$20,000 (retail). Purchases: \$40,000 (cost), \$80,000 (retail). Markups: \$5,000. Markdowns: \$3,000. Sales: \$70,000. What is the ending inventory at cost?

- A. \$21,000
- B. \$16,000
- C. \$22,500
- D. \$25,500

Answer: B

Explanation: Goods available: cost = $\$10,000 + \$40,000 = \$50,000$; retail = $\$20,000 + \$80,000 + \$5,000 - \$3,000 = \$102,000$. Cost-to-retail ratio = $\$50,000 / \$102,000 = 49.02\%$. Ending inventory at retail = $\$102,000 - \$70,000 = \$32,000$. At cost = $\$32,000 \times 49.02\% = \$15,686$.

Question: 1876

A company's 10-Q must be filed within how many days after quarter-end for an accelerated filer?

- A. 40 days
- B. 30 days
- C. 45 days
- D. 60 days

Answer: A

Explanation: Accelerated filers must file their 10-Q within 40 days after quarter-end.

Question: 1877

During 2024, Zeta Corp. had 300,000 shares outstanding. It also had 2,000 warrants, each convertible into 10 shares of common stock, exercisable at \$25. The average market price was \$40. What is the impact on diluted EPS?

- A. Add 10,000 shares
- B. Add 7,500 shares
- C. Add 20,000 shares
- D. Add 12,500 shares

Answer: B

Explanation:

Total shares from exercise = $2,000 \times 10 = 20,000$

Proceeds = $2,000 \times 10 \times \$25 = \$500,000$

Shares repurchased = $\$500,000 / \$40 = 12,500$

Incremental shares = $20,000 - 12,500 = 7,500$

Question: 1878

A company is evaluating impairment of a long-lived asset. Under US GAAP, what is the first step in the impairment test?

- A. Compare carrying amount to fair value
- B. Compare carrying amount to undiscounted future cash flows
- C. Compare carrying amount to discounted future cash flows
- D. Compare carrying amount to replacement cost

Answer: B

Explanation: US GAAP requires a recoverability test using undiscounted future cash flows as the first step. IFRS uses a one-step approach comparing carrying amount to recoverable amount (higher of fair value less costs to sell and value in use).

Question: 1879

ZAB Inc. uses weighted-average cost. Inventory: 400 units at \$25. Purchases: 200 units at \$30 on July

10. Sales: 300 units on July 15. Calculate ending inventory.

- A. \$8,000
- B. \$7,800
- C. \$7,500
- D. \$8,400

Answer: A

Explanation: Weighted-average cost = $[(400 \times \$25) + (200 \times \$30)] / (400 + 200) = (\$10,000 + \$6,000) / 600 = \$26.67$. Ending inventory = $(600 - 300) \times \$26.67 = \$8,001$

Question: 1880

A company purchased equipment for \$300,000 and incurred \$25,000 in shipping and \$15,000 in installation costs. The company also paid \$10,000 in training costs for employees. What amount should be capitalized?

- A. \$340,000
- B. \$340,000 minus training costs
- C. \$340,000 plus training costs
- D. \$350,000

Answer: B

Explanation: Capitalize purchase price, shipping, and installation costs. Training costs are expensed. Total capitalized = $\$300,000 + \$25,000 + \$15,000 = \$340,000$.

Question: 1881

Sierra Co. factors \$400,000 of receivables with recourse. The factor retains a 5% holdback, charges a 3% fee, and estimates the recourse liability at \$6,000. How much cash does Sierra receive initially?

- A. \$373,000
- B. \$371,000
- C. \$379,000
- D. \$368,000

Answer: D

Explanation:

Holdback: $\$400,000 \times 5\% = \$20,000$

Fee: $\$400,000 \times 3\% = \$12,000$

Cash received = $\$400,000 - \$20,000 - \$12,000 = \$368,000$

Question: 1882

During the year, a company incurred the following costs for a trademark: \$50,000 legal fees, \$30,000 marketing design, \$10,000 filing fees, and \$20,000 testing. What amount is capitalized?

- A. \$80,000
- B. \$60,000
- C. \$90,000
- D. \$100,000

Answer: B

Explanation:

Only legal and filing fees related to securing the trademark are capitalized.

Capitalized = $\$50,000 + \$10,000 = \$60,000$. Marketing and testing are expensed.

Question: 1883

A company files a Form 8-K after a significant acquisition. Which of the following is required under SEC rules?

- A. Only a summary of the acquisition terms
- B. Pro forma financial information and historical financial statements of the acquired business
- C. No financial information is required
- D. Only a press release

Answer: B

Explanation: SEC rules require that a Form 8-K reporting a significant acquisition include pro forma financial information and historical financial statements of the acquired business.

Question: 1884

OPQ Inc.'s defined benefit plan has a PBO of \$19,000,000 and plan assets of \$17,500,000. An actuarial loss of \$800,000 exceeds the 10% corridor (\$1,900,000). The average remaining service period is 8 years. What is the amortization amount for 2024?

- A. \$80,000
- B. \$120,000
- C. \$100,000
- D. \$150,000

Answer: C

Explanation: Actuarial losses exceeding the 10% corridor (greater of PBO or plan assets, here \$1,900,000) are amortized over the average remaining service period. Excess loss = \$800,000 - \$0 (no corridor excess specified) = \$800,000. Amortization = \$800,000 ÷ 8 years = \$100,000.

Question: 1885

A company writes off a \$5,000 account under the direct write-off method. What is the effect on net income and accounts receivable?

- A. Decrease accounts receivable only
- B. Decrease net income only
- C. Decrease both net income and accounts receivable
- D. No effect on either

Answer: C

Explanation: Under the direct write-off method, both net income and accounts receivable decrease when an account is written off.

Question: 1886

A CPA is researching the accounting for a software development cost under ASC 985. The company is developing software for sale and needs to determine when to capitalize costs. Which Codification paragraph provides this guidance?

- A. ASC 985-10-25-1
- B. ASC 985-30-25-2
- C. ASC 985-20-25-1
- D. ASC 985-40-25-1

Answer: C

Explanation: ASC 985 (Software) governs software development costs. Subtopic 985-20 (Costs of Software to Be Sold, Leased, or Marketed) includes Section 25 (Recognition), where paragraph 25-1

specifies that software development costs are capitalized after technological feasibility is established. ASC 985-10-25-1 covers general recognition, ASC 985-30 does not exist, and ASC 985-40-25-1 is not a valid reference.

Question: 1887

Drake Inc. operates in three segments: Consumer Goods, Industrial Products, and Services. In 2025, Consumer Goods reports \$10 million in external revenue, \$2 million in intersegment revenue, and \$1.5 million in operating profit. The segment's assets are \$15 million, representing 12% of total company assets. The company's total external revenue is \$80 million, and total operating profit is \$12 million. Under ASC 280, determine if Consumer Goods qualifies as a reportable segment.

- A. Yes, it meets the revenue threshold
- B. No, it does not meet any of the quantitative thresholds
- C. Yes, it meets the profit threshold
- D. Yes, it meets the asset threshold

Answer: A

Explanation: ASC 280-10-50-12 requires a segment to be reportable if it meets any of the following: (1) Revenue (external + intersegment) is 10% or more of total revenue, (2) Absolute value of profit or loss is 10% or more of the greater of total profit or total loss, or (3) Assets are 10% or more of total assets. For Consumer Goods: Revenue = \$10M + \$2M = \$12M, which is 15% of \$80M (meets 10% threshold). Profit = \$1.5M, which is 12.5% of \$12M (meets 10% threshold). Assets = \$15M, or 12% of total assets (meets 10% threshold). Since it meets the revenue threshold (and others), it is reportable. The revenue threshold is sufficient to qualify.



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