



# CONTENTS

Introduction.....	8
Frequently Asked Questions .....	9
Exam Strategies .....	13
Types of Questions on the CPA Exam .....	34
Simulation Writing Guide .....	67
<b>Ch. 1 Receivables and Bad Debt Expense .....</b>	<b>96</b>
Basic Description .....	97
Sales Discounts.....	98
Bad Debt Expense .....	99
Using Accounts Receivable to Obtain Cash Prior to Collections from Customers .....	102
Sale of Notes Receivable (Discounting).....	104
Questions.....	105
Answers.....	115
<b>Ch. 2 Present Value Computations .....</b>	<b>119</b>
Overview of Time Value of Money Coverage on the CPA Exam.....	120
Overview of Present Value (PV) .....	120
Overview of Annuities .....	122
Net Present Value and Future Values .....	122
Calculating Other Variables Using the Simple Formulas.....	123
Calculations Using Annuity Factors .....	125
Compound Interest.....	126
Questions.....	127
Answers.....	131
<b>Ch. 3 Land, Buildings, and Equipment .....</b>	<b>134</b>
Overview of the Land, Buildings, and Equipment Coverage on the CPA Exam.....	135
Acquiring Land, Buildings, and Equipment .....	135
Use of Land, Buildings, and Equipment.....	142
Disposal of Land, Buildings, and Equipment .....	146
Questions.....	150
Answers.....	162
<b>Ch. 4 Bonds Payable, Notes Payable, and Investments in Bonds or Notes Held to Maturity.....</b>	<b>168</b>
Bonds and Notes .....	169
Common Features Found in Bonds .....	169
Features of Premiums and Discounts.....	170



- c. A portion of dividends received from another domestic company is recognized but never taxed.
- This dividends-received deduction (DRD) is 70%, if less than 20% of the company is owned.
  - The DRD is 80%, if 20% up to 80% of the company is owned.
  - The DRD is 100% if 80% or more of the company is owned.

### APPLICATION

- A. A balance sheet approach is used for recognizing deferred taxes.
1. The amounts of all expected future temporary differences are scheduled each year, and deferred tax assets and liabilities are computed.
  2. The changes in these accounts create the deferred income tax expense to be recognized.
- B. Example to demonstrate the scheduling process is as follows:

An asset costs \$200,000, has a depreciable life of four years, and has zero salvage value. It is expected to produce \$150,000 in annual revenue. It is depreciated by the double declining balance (DDB) method for tax purposes and by the straight line method for financial reporting purposes.

Using the DDB method, depreciation will be \$100,000, \$50,000, \$25,000, and \$25,000 in each of the next four years. The relevant tax rate is 40%.

#### Tax return reporting

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Total</u>
Revenue	\$150K	\$150K	\$150K	\$150K	\$600K
Depreciation	\$100K	\$50K	\$25K	\$25K	\$200K
Taxable income	\$50K	\$100K	\$125K	\$125K	\$400K
Taxes payable	\$20K	\$40K	\$50K	\$50K	\$160K
Net income	\$30K	\$60K	\$75K	\$75L	\$240K

#### Financial statement reporting

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Total</u>
Revenue	\$150K	\$150K	\$150K	\$150K	\$600K
Depreciation	\$50K	\$50K	\$50K	\$50K	\$200K
Pretax income	\$100K	\$100K	\$100K	\$100K	\$400K
Income tax expense	\$40K	\$40K	\$40K	\$40K	\$160K
Net income	\$60K	\$60K	\$60K	\$60K	\$240K

---

**QUESTIONS: GOVERNMENTAL ACCOUNTING**

1. Government-wide statement of net assets reports capital assets:
  - A. at estimated fair value.
  - B. at historical costs including any capitalized interest.
  - C. as part of the fixed asset group.
  - D. in the statement of capital assets.
  
2. Which of the following accounts of a governmental unit is credited when the budget is recorded?
  - A. Reserve for encumbrances.
  - B. Encumbrances.
  - C. Appropriations.
  - D. Estimated revenues.
  
3. SGAS 34 requires that budgetary comparison schedules should:
  - A. not be reported.
  - B. be reported for all proprietary funds.
  - C. be reported for the permanent funds.
  - D. be reported for the general fund and each major special revenue fund with a legally adopted budget.
  
4. The budgetary fund balance reserved for encumbrances account of a governmental fund type is increased when:
  - A. a purchase order is approved.
  - B. supplies previously ordered are received.
  - C. appropriations are recorded.
  - D. the budget is recorded.
  
5. Interest paid on capital debt and leases must be reported on public colleges' cash flow statements as cash from:
  - A. investing activities.
  - B. operations.
  - C. capital and related financing activities.
  - D. noncapital financing activities.
  
6. When the budget of a governmental unit, for which the estimated revenues exceed the appropriations, is adopted and recorded in the general ledger at the beginning of the year, the budgetary fund balance account is:
  - A. debited at the beginning of the year and credited at the end of the year.
  - B. credited at the beginning of the year and no entry made at the end of the year.
  - C. debited at the beginning of the year and no entry made at the end of the year.
  - D. credited at the beginning of the year and debited at the end of the year.
  
7. Cash flows from a public university bookstore would appear on the statement of cash flows as cash flows from:
  - A. operations.
  - B. investing activities.
  - C. financing activities.
  - D. noncapital financing.

**ANSWERS: GOVERNMENTAL ACCOUNTING**

1. B At historical costs including any capitalized interest.
2. C Appropriations—the entry to record the budget:

Estimated revenue control	\$XXX
Appropriation control	\$XXX
Budgetary fund balance	\$XXX

This entry assumes that estimated revenue exceeds appropriations, which is the normal condition.

3. D SGAS 34 requires that budgetary comparison schedules be reported for the general fund and each major special revenue fund with a legally adopted budget.
4. A A purchase order is approved. When a purchase order is approved, the following entry is made:

Encumbrances control		\$XXX
Budgetary fund balance reserved for encumbrances		\$XXX

A credit balance is the normal balance for this account; hence it is increased when a purchase order is approved. When supplies orders are received, the above entry is reversed, decreasing the balance. The account's function is to measure obligations outstanding not recorded as liabilities.

5. C Interest paid on capital debt and leases must be reported on public colleges' cash flow statements as cash from capital and related financing activities.
6. D Credited at the beginning of the year and debited at the end of the year.

Beginning of the year opening entry:

Estimated revenue control	\$1,000,000	
Appropriations		\$950,000
Budgetary fund balance		\$50,000

End of year—reverse the above entry.

7. A Cash flows from a public university's bookstore would be cash from operations.
8. B Only an error would cause a difference in balance.

When a purchase order is approved—

Encumbrances	\$100	
Reserve for Encumbrances		\$100

When the order arrives the entry is reversed—

Reserve for Encumbrances	\$100	
Encumbrances		\$100

9. A Interperiod equity assumes that the revenues of a period will at least equal the expenditures of the period. This financial objective assumes that a balanced budget will be adopted. Residual equity is not related to interperiod equity.
10. D When the budget is initially recorded appropriations control is credited. At year-end the budget entry is reversed; thus the appropriations control account would be debited to close it out.