Module 5 – Financial & Managerial Accounting for MBAs, 4th Edition
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Solutions to Practice Quiz

LO: 3
1. Answer: b

    Cisco reports $2,295 million of tax expense in its income statement. This is the total of Federal, state
    and foreign taxes.

LO: 1
2. Answer: a

($ millions)			Percentage of Completion Method	
Year	Costs incurred	Percent of total expected costs	Revenue recognized (percentage of costs incurred × total contract amount)	Income (revenue – costs incurred)
2014	$30	18% ($30/$170)	$ 43.2	$ 13.2
2015	80	47% ($80/$170)	112.8	32.8
2016	60	35% ($60/$170)	84.0	24.0
	$170		$240.0	$70.0

LO: 3
3. Answer: d

    We can calculate the percentage currently payable by dividing the current provision by total tax
    expense. This yields 106% ($510 million / $481 million) in 2014, and 35% ($179 million / $508 million)
    in 2013.

LO: 2
4. Answer: b

    Equity in net income of affiliates is generally considered to be operating provided that the investment
    is strategic in nature, which is typically the case.

    Other expense is assumed to be operating unless information is provided in the footnotes that
    indicates otherwise.

    Research and development is operating.

LO: 1
5. Answer: c

GAAP specifies two revenue recognition criteria that must both be met for revenue to be recognized on the income statement. Revenue must be realized or realizable, and earned.

LO: 1
6. Answer: b

Percentage-of-completion method

LO: 1
7. Answer: a

		Percentage-of-Completion Method		
Year	Costs incurred	Percent of total expected costs	Revenue recognized (percentage of costs incurred × total contract amount)	Income (revenue – costs incurred)
2014	$ 640,000	21%[a]	$ 840,000	$200,000
2015	1,600,000	53%[b]	2,120,000	520,000
2016	800,000	26%[c]	1,040,000	240,000
Total	$3,040,000		$4,000,000	$960,000

[a] $640,000 / $3,040,000
[b] $1,600,000 / $3,040,000
[c] $800,000 / $3,040,000