

CFA® SAMPLE QUESTION – LEVEL I

Financial Reporting and Analysis

Q: Concrete Limited has a contract to build a building for \$120,000 with an estimated time to completion of 5 years. A reliable 3rd party cost estimate for the project is \$70,000.

In the first year of the project, Concrete Limited incurred costs totaling \$28,000. How much profit should Concrete report at the end of the first year under the percentageof-completion method and the completed-contract method?

CORRECT ANSWER:

Percentage-of-Completion

Completed-Contract

\$20,000 **(a)**

0

Under Percentage-of-Completion method:

28,000/ 70,000 = 40% of the project completed. 40% of \$120,000 = \$48,000 revenue

\$48,000 revenue - \$28,000 cost incurred = \$20,000 profit for the period.

Under Completed-Contract method:

No project would be reported in the first year if using the completed contract method.



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