

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 percentage-of-completion method and the completed-contract method?

CORRECT ANSWER:

	<u>Percentage-of-Completion</u>	<u>Completed-Contract</u>
(a)	\$20,000	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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