BECKER CPA FINANCIAL ACCOUNTING AND REPORTING (FAR) PRACTICE EXAM (SAMPLE)

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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Introduction

Preparing for a certification exam can feel overwhelming, but with the right tools, it becomes an opportunity to build confidence, sharpen your skills, and move one step closer to your goals. At Examzify, we believe that effective exam preparation isn't just about memorization, it's about understanding the material, identifying knowledge gaps, and building the test-taking strategies that lead to success.

This guide was designed to help you do exactly that.

Whether you're preparing for a licensing exam, professional certification, or entry-level qualification, this book offers structured practice to reinforce key concepts. You'll find a wide range of multiple-choice questions, each followed by clear explanations to help you understand not just the right answer, but why it's correct.

The content in this guide is based on real-world exam objectives and aligned with the types of questions and topics commonly found on official tests. It's ideal for learners who want to:

- Practice answering questions under realistic conditions,
- Improve accuracy and speed,
- Review explanations to strengthen weak areas, and
- Approach the exam with greater confidence.

We recommend using this book not as a stand-alone study tool, but alongside other resources like flashcards, textbooks, or hands-on training. For best results, we recommend working through each question, reflecting on the explanation provided, and revisiting the topics that challenge you most.

Remember: successful test preparation isn't about getting every question right the first time, it's about learning from your mistakes and improving over time. Stay focused, trust the process, and know that every page you turn brings you closer to success.

Let's begin.

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How to Use This Guide

This guide is designed to help you study more effectively and approach your exam with confidence. Whether you're reviewing for the first time or doing a final refresh, here's how to get the most out of your Examzify study guide:

1. Start with a Diagnostic Review

Skim through the questions to get a sense of what you know and what you need to focus on. Your goal is to identify knowledge gaps early.

2. Study in Short, Focused Sessions

Break your study time into manageable blocks (e.g. 30 – 45 minutes). Review a handful of questions, reflect on the explanations.

3. Learn from the Explanations

After answering a question, always read the explanation, even if you got it right. It reinforces key points, corrects misunderstandings, and teaches subtle distinctions between similar answers.

4. Track Your Progress

Use bookmarks or notes (if reading digitally) to mark difficult questions. Revisit these regularly and track improvements over time.

5. Simulate the Real Exam

Once you're comfortable, try taking a full set of questions without pausing. Set a timer and simulate test-day conditions to build confidence and time management skills.

6. Repeat and Review

Don't just study once, repetition builds retention. Re-attempt questions after a few days and revisit explanations to reinforce learning. Pair this guide with other Examzify tools like flashcards, and digital practice tests to strengthen your preparation across formats.

There's no single right way to study, but consistent, thoughtful effort always wins. Use this guide flexibly, adapt the tips above to fit your pace and learning style. You've got this!

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Questions

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1. What is the primary accounting method for treasury stock that recognizes the original purchase cost?

A. Par value method

B. Cost method

C. Market value method

D. Residual method

2. Why are estimated liabilities recorded in the same period as revenue?

A. To ensure financial statements are accurate

B. To comply with tax laws

C. To match costs and revenues

D. To avoid legal implications

3. What does the "E" in the SELF mnemonic stand for?

A. Equitability

B. Elected boards

C. Executive authority

D. Emergency governance

4. If a lease is classified as a finance lease, what will be the lessee's accounting treatment?

A. Recognizing it as inventory

B. Recording a right-of-use asset and lease liability

C. Accounting for it as an expense

D. Not recognizing any liability

5. How are treasury stock transactions recorded under the par value method?

A. At cost with excess over par deducted from retained earnings

B. At par value with any excess recorded as paid-in capital

C. At cost with all related earnings recognized in the income statement

D. At market value with capital stock reported separately

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6. What are the two accounting treatment options available to a lessee for contracts with lease and nonlease components?

A. Combine all components into one unit of account

B. Treat lease components separately from nonlease components

C. Both options are allowed without restrictions

D. Only the lease component is accounted for

7. What is the primary purpose of the general fund in a governmental unit?

A. To manage specific projects and grants

B. To account for general activities not accounted for by any other fund

C. To fund infrastructure and capital projects

D. To maintain reserve funds for emergencies

8. What does a classified balance sheet distinguish?

A. Operating and non-operating income

B. Current and non-current assets and liabilities

C. Comprehensive income from net income

D. General and specialized revenue

9. What kind of financing typically supports debt service funds?

A. Grants for capital projects

B. Allocated property taxes and refunding debt proceeds

C. Generational wealth transfers

D. Interest income from investments

10. Which criteria indicate that an organization is a component unit?

A. It is legally separate and financially independent

B. It is primarily a for-profit organization

C. It has elected officials of the primary government financially accountable for it

D. It does not interact with the primary government

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Answers

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1. B
2. C
3. B
4. B
5. B
6. D
7. B
8. B
9. B
10. C

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Explanations

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1. What is the primary accounting method for treasury stock that recognizes the original purchase cost?

A. Par value method

B. Cost method

C. Market value method

D. Residual method

The cost method is the primary accounting method for treasury stock that recognizes the original purchase cost. Under this method, when a company buys back its own shares, it records them at the cost paid for those shares, which includes any direct costs attributable to the acquisition. This approach provides a clear and straightforward way to account for treasury stock, as it reflects the actual cash outflow and the value of the investment made in the shares. When treasury stock is eventually reissued or sold, the company will adjust the treasury stock account and recognize any gains or losses based on the difference between the reissue price and the original purchase cost. This method ensures that the financial statements accurately represent share repurchases and any impacts on shareholders' equity. In contrast, other methods such as the par value method focus on maintaining a specific par value for shares rather than the cost incurred, while the market value method does not apply for accounting treasury stock since it is not reflective of the historical cost basis. The residual method, similarly, does not pertain to treasury stock accounting as it involves a different approach to recognizing the values associated with stock issuance and treasury stock transactions. Therefore, the cost method is the most appropriate and widely used method for accounting purposes in this context.

2. Why are estimated liabilities recorded in the same period as revenue?

A. To ensure financial statements are accurate

B. To comply with tax laws

C. To match costs and revenues

D. To avoid legal implications

Estimated liabilities are recorded in the same period as revenue primarily to adhere to the matching principle in accounting. The matching principle requires that expenses be recognized in the same period as the revenues they help to generate. When a company recognizes revenue, it is simultaneously incurring certain costs and liabilities associated with that revenue, even if the exact amount is not yet known. By recording estimated liabilities alongside the revenue, the financial statements provide a more accurate representation of the company's financial performance and position. This correlation helps ensure that the income reported reflects not just the revenues earned but also the associated expenses, providing a clearer view of profitability for that period. The practice is crucial for the integrity of financial reporting and aligns with the accrual basis of accounting, where transactions are recorded when they occur, not necessarily when cash is exchanged. While ensuring accurate financial statements (the first choice), complying with tax laws (the second choice), and avoiding legal implications (the fourth choice) are all important factors in financial reporting, they are not the primary reasons for the specific matching of estimated liabilities with revenue. The core objective here is to properly match costs with revenues to reflect a true and fair view of the company's financial activities.

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3. What does the "E" in the SELF mnemonic stand for?

A. Equitability

B. Elected boards

C. Executive authority

D. Emergency governance

The "E" in the SELF mnemonic stands for "Elected boards." This term is significant in governance contexts, particularly in organizations and entities that operate under a model allowing for representation and participation from stakeholders through elected individuals. Elected boards typically focus on governance issues, ensuring accountability, and upholding the mission and vision of the organization. By emphasizing the role of elected boards, the mnemonic captures a fundamental aspect of organizational governance, which is the mechanism through which leadership is selected and held accountable to members or stakeholders. In many organizations, this structure promotes transparency and gives members a voice in decision-making processes, aligning with democratic principles. Understanding the role of elected boards in governance helps in recognizing the importance of stakeholder engagement and the impact such bodies have on the strategic direction of organizations.

4. If a lease is classified as a finance lease, what will be the lessee's accounting treatment?

A. Recognizing it as inventory

B. Recording a right-of-use asset and lease liability

C. Accounting for it as an expense

D. Not recognizing any liability

When a lease is classified as a finance lease, the lessee must account for it by recording a right-of-use asset and a lease liability on its balance sheet. This treatment reflects the essence of finance leases, which transfer substantially all the risks and benefits associated with ownership of the leased asset to the lessee. The right-of-use asset represents the right to use the underlying asset over the lease term, while the lease liability reflects the obligation to make lease payments. This dual recognition ensures that the financial statements accurately depict the lessee's financial position by acknowledging both the asset used in operations and the associated liability incurred from the leasing arrangement. This approach is consistent with the accounting standard ASC 842, which aims to provide greater transparency regarding lease obligations. Options that suggest recognizing the lease as inventory, accounting for it as an expense, or not recognizing any liability do not align with the requirements for finance lease accounting, where there is a clear transfer of asset benefits and obligations.

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5. How are treasury stock transactions recorded under the par value method?

A. At cost with excess over par deducted from retained earnings

B. At par value with any excess recorded as paid-in capital

C. At cost with all related earnings recognized in the income statement

D. At market value with capital stock reported separately

When using the par value method for treasury stock transactions, the correct approach is to record the treasury stock at its par value, with any excess amount paid over par recorded as additional paid-in capital. This is because treasury stock represents shares that have been repurchased by the company. When a company buys back its own stock, the amount paid for the shares is allocated between the par value of the stock and any additional amount over that value. The par value is the nominal value assigned to each share, while additional paid-in capital reflects the extra amount that investors paid above this par value during the original issuance of the shares. By recording the treasury stock at par value and reflecting the excess as paid-in capital, this accounting treatment maintains a clear distinction between the nominal ownership interest (par value) and the additional investment made by shareholders when the stock was originally sold. This approach also aligns with accounting principles regarding equity transactions and provides a meaningful representation of the company's equity structure on its balance sheet.

6. What are the two accounting treatment options available to a lessee for contracts with lease and nonlease components?

A. Combine all components into one unit of account

B. Treat lease components separately from nonlease components

C. Both options are allowed without restrictions

D. Only the lease component is accounted for

The accounting treatment available to a lessee for contracts that include both lease and nonlease components is that they may choose to combine the two into one unit of account, or treat them separately. This flexibility allows for more tailored financial reporting based on the specifics of the agreement. The correct treatment is to treat lease components separately from nonlease components in scenarios where the accounting guidance allows for it, which provides a clearer representation of the financial implications of the lease in question. This means that the lessee can identify and record the assets and liabilities associated with the lease separately from any associated nonlease obligations, offering more transparency and a better understanding of the financial situation. The option that only the lease component is accounted for would limit the financial reporting and could omit significant liabilities or obligations that the lessee faces from nonlease components, which can impact operational assessments and financial analysis. Therefore, the accounting guidance allows for the more thorough approach of distinguishing between lease and nonlease components, which enhances the accuracy of financial statements and helps users of those statements make informed decisions.

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7. What is the primary purpose of the general fund in a governmental unit?

A. To manage specific projects and grants

B. To account for general activities not accounted for by any other fund

C. To fund infrastructure and capital projects

D. To maintain reserve funds for emergencies

The primary purpose of the general fund in a governmental unit is to account for general activities that are not specifically accounted for by any other fund. This is the main operating fund for governmental entities, covering a wide range of services and programs, such as public safety, education, and general administration. The general fund serves as a default category for all financial activities that do not fit into the more specialized funds, which are designated for specific purposes, projects, or legal requirements. In essence, this fund is crucial for providing the flexibility needed by government units to manage their everyday operational costs and support essential public services. It reflects the broadest scope of governmental functions, making it integral to the financial statements and fiscal health of a governmental unit. While the other options address important functions within a governmental framework, they represent specific uses or constraints that do not encompass the general fund's overarching role in capturing a government's general operations.

8. What does a classified balance sheet distinguish?

A. Operating and non-operating income

B. Current and non-current assets and liabilities

C. Comprehensive income from net income

D. General and specialized revenue

A classified balance sheet is designed to provide clarity by organizing the assets, liabilities, and equity of a company into distinct categories. The correct answer focuses on the differentiation between current and non-current assets and liabilities. Current assets are those expected to be converted to cash or used up within one year, including items like cash, accounts receivable, and inventory. Non-current assets, on the other hand, are long-term investments that are not expected to be liquidated or utilized within the same time frame, encompassing property, plant, equipment, and intangible assets. Similarly, liabilities are classified as current if they are due within one year or operating cycle and non-current if they are due beyond that period. This classification enables stakeholders to assess the company's liquidity and financial health more effectively, as it shows how well the company can meet its short-term obligations versus its long-term commitments. While the other choices address relevant financial concepts, they do not pertain specifically to the classification framework of a balance sheet. Operating and non-operating income concerns income statement classifications, comprehensive income versus net income deals with reporting on broader income metrics, and distinguishing general from specialized revenue relates to revenue recognition rather than balance sheet formatting. Thus, the focus on current and non-current classifications makes the

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9. What kind of financing typically supports debt service funds?

A. Grants for capital projects

B. Allocated property taxes and refunding debt proceeds

C. Generational wealth transfers

D. Interest income from investments

Debt service funds are specifically designed for managing the payment of principal and interest on long-term debt. These funds require a steady and reliable source of financing to ensure that obligations are met when they come due. The correct answer highlights the primary sources of revenue typically allocated to debt service funds. Allocated property taxes are commonly levied specifically to provide funding for debt service requirements. This ensures that there are sufficient resources available to meet debt obligations on time and is a standard practice among municipalities and governmental entities. Refunding debt proceeds can also be a significant source of financing for debt service funds. When entities issue new bonds to refinance existing debt, the proceeds are often directed toward paying off the older debt, thus supporting the obligations associated with that service. The other options do not directly provide a consistent or reliable source of funds specifically for debt service obligations. For example, grants for capital projects may be designated for specific construction or development purposes and not for ongoing debt repayment. Generational wealth transfers do not represent a predictable revenue stream that governments can count on for servicing debts. While interest income from investments may offer some revenue, it is typically not sufficient on its own to bear the weight of debt service requirements. Therefore, allocated property taxes and refunding debt proceeds stand out as the most

10. Which criteria indicate that an organization is a component unit?

A. It is legally separate and financially independent

B. It is primarily a for-profit organization

C. It has elected officials of the primary government financially accountable for it

D. It does not interact with the primary government

An organization qualifies as a component unit when it meets specific criteria that indicate a relationship with a primary government. One key criterion is financial accountability, which is established when the elected officials of the primary government are financially accountable for the organization. This means that the primary government has the ability to significantly influence the organization's operations and fiscal decisions, often through appropriations or oversight. Therefore, the presence of elected officials being financially accountable for the component unit shows a direct relationship that necessitates the unit's inclusion in the primary government's financial statements. This connection is essential in governmental accounting as it provides a comprehensive view of the financial position and activities of the primary government and its related entities, ensuring transparency and accountability to the public. The other scenarios presented would not lead to the classification of an organization as a component unit, as they do not align with this definition of financial accountability.

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Next Steps

Congratulations on reaching the final section of this guide. You've taken a meaningful step toward passing your certification exam and advancing your career.

As you continue preparing, remember that consistent practice, review, and self-reflection are key to success. Make time to revisit difficult topics, simulate exam conditions, and track your progress along the way.

If you need help, have suggestions, or want to share feedback, we'd love to hear from you. Reach out to our team at hello@examzify.com.

Or visit your dedicated course page for more study tools and resources:

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We wish you the very best on your exam journey. You've got this!

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