CLFP FINANCIAL AND TAX ACCOUNTING FOR LEASES 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. Which inventory method reflects most recent prices in inventory values?

A. LIFO

B. Average Cost

C. FIFO

D. Specific Identification

2. Lease Term includes renewal periods that precede a bargain purchase option.

A. True

B. False

C. Only if renewal is approved by the lessee

D. Only if there is no bargain purchase option

3. How should the lessee record a capital lease on its balance sheet?

A. as an asset and an obligation

B. as an asset only

C. as a liability only

D. as revenue

4. Which option best describes required disclosures for a capital lease on the lessee's financial statements?

A. Gross amount of asset and related accumulated depreciation, future minimum lease payments as of the balance sheet date and each succeeding five years, total contingent payments, and the related obligation classified as current and noncurrent

B. Future minimum lease payments only for the balance sheet date and next five years

C. Total contingent payments and depreciation only

D. No disclosures are required

5. Which item is included as a component to provide additional information in a full-disclosure financial statement?

A. Notes

B. Balance sheet

C. Income statement

D. Optional supplementary information

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6. What is Inventory?

A. Cash.

B. Marketable securities.

C. Prepaid expenses.

D. A current asset including raw materials, work in process, and finished goods either manufactured or purchased for resale.

7. Value of Leased Property for a lessor that is not a manufacturer or dealer is equal to which?

A. The normal selling price, net volume discounts, for a manufacturer or dealer

B. The cost, net volume discounts for a lessor that is not a manufacturer or dealer

C. The present value of minimum lease payments

D. The fair market value of the asset

8. Which item is typically capitalized and depreciated as a fixed asset?

A. Buildings

B. Inventory

C. Wages Payable

D. Interest Receivable

9. What is a Bargain Renewal Option?

A. A provision to terminate the lease early.

B. A provision allowing lessee to renew the lease for a rental sufficiently lower than the expected fair value and reasonably assured to exercise.

C. A provision to renew at market rate.

D. A purchase option.

10. A very high receivable turnover generally indicates which of the following?

A. Fast collection and possibly tighter credit policy

B. Slow collection and poor credit policy

C. High inventory levels

D. Low price strategy

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Answers

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

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Explanations

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1. Which inventory method reflects most recent prices in inventory values?

A. LIFO

B. Average Cost

C. FIFO

D. Specific Identification

Under FIFO, the first items purchased are the first ones sold. That means the inventory left at the end of the period consists of the most recently purchased items, so the ending inventory is valued using the latest costs. This is why FIFO reflects the most recent prices in inventory values. LIFO would leave older costs in ending inventory, Average Cost uses a blended price, and Specific Identification ties value to the exact items, which may or may not be the most recent costs but isn't the general mechanism described by this question.

2. Lease Term includes renewal periods that precede a bargain purchase option.

A. True

B. False

C. Only if renewal is approved by the lessee

D. Only if there is no bargain purchase option

Lease term is not just the initial noncancelable period; it extends to include renewal periods if the lessee is reasonably certain to exercise those options. A bargain purchase option at the end of the lease makes it more likely that the lessee will continue the arrangement or purchase the asset, which can make renewal periods that occur before that option reasonably certain to be exercised. Because of that, those renewal periods are included in the lease term for accounting purposes. If the renewal options were not reasonably certain to be exercised, they would not be included. The presence of a bargain purchase option by itself doesn't negate the renewal periods; it often supports extending the term to cover them.

3. How should the lessee record a capital lease on its balance sheet?

A. as an asset and an obligation

B. as an asset only

C. as a liability only

D. as revenue

A capital lease puts a right-to-use asset and a lease liability on the lessee's balance sheet. At the start, you recognize the asset and the obligation at the present value of the minimum lease payments. This reflects that you've gained control of using the asset and also incur a future payment obligation. Over the life of the lease, you depreciate the asset and recognize interest on the lease liability while making lease payments that reduce the liability. It's not recorded as revenue, and it isn't just an asset or just a liability—the financing nature of a capital lease requires both.

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4. Which option best describes required disclosures for a capital lease on the lessee's financial statements?

A. Gross amount of asset and related accumulated depreciation, future minimum lease payments as of the balance sheet date and each succeeding five years, total contingent payments, and the related obligation classified as current and noncurrent

B. Future minimum lease payments only for the balance sheet date and next five years

C. Total contingent payments and depreciation only

D. No disclosures are required

When a lease is accounted for as a capital (finance) lease, the lessee must disclose both the asset and the related liability and provide details that show the timing and magnitude of future cash outflows. The best description includes four elements: the gross amount of the leased asset and the related accumulated depreciation so the net book value is clear; a schedule of future minimum lease payments as of the balance sheet date and for each of the next five years, plus totals for payments due after that; any contingent rentals that could affect future payments; and the lease obligation classified as current and noncurrent. This combination gives a complete picture of what is owned, how it is being depreciated, the timing of remaining payments, and how much is due within the next year versus later. Other options omit one or more of these required disclosures, such as not presenting the depreciation impact, the full five-year and beyond payment schedule, contingent payments, or the current/noncurrent classification.

5. Which item is included as a component to provide additional information in a full-disclosure financial statement?

A. Notes

B. Balance sheet

C. Income statement

D. Optional supplementary information

Notes to the financial statements provide the additional information that accompanies the main statements to give users a complete understanding. They explain accounting policies and judgments, detail significant items such as leases, contingencies, and commitments, and disclose events after the reporting period, estimates, and other disclosures that aren't evident from the numbers on the balance sheet or income statement alone. This extra context is what full disclosure hinges on, making notes the essential component for providing the necessary detail and transparency. The balance sheet and income statement show the financial position and performance, but they rely on the notes to explain how those numbers were determined and what they imply. Optional supplementary information may exist in some reports, but the notes are the standard, formal mechanism for providing additional information.

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6. What is Inventory?

A. Cash.

B. Marketable securities.

C. Prepaid expenses.

D. A current asset including raw materials, work in process, and finished goods either manufactured or purchased for resale.

Inventory is the current asset that represents goods a business intends to sell or use in production. It includes raw materials, work in process, and finished goods, whether these are manufactured in-house or purchased for resale. Raw materials are the inputs, work in process covers items partly completed, and finished goods are ready for sale. This combination captures the full scope of what a company holds for sale or manufacturing. The other options describe different kinds of assets: cash is cash; marketable securities are investments; prepaid expenses are payments made in advance for future goods or services. Those are not inventory because they aren't goods held for sale or for use in production.

7. Value of Leased Property for a lessor that is not a manufacturer or dealer is equal to which?

A. The normal selling price, net volume discounts, for a manufacturer or dealer

B. The cost, net volume discounts for a lessor that is not a manufacturer or dealer

C. The present value of minimum lease payments

D. The fair market value of the asset

For a lessor that is not a manufacturer or dealer, the leased property is recorded at its cost, net of any volume discounts. This cost basis reflects what the lessor paid to acquire the asset and any reductions taken to obtain it, rather than its selling price or future lease payments. The present value of minimum lease payments relates to the lessee's payments and becomes the net investment in the lease (the receivable), not the asset's carrying value. Fair market value isn't used for initial measurement in this case. manufacturers/dealers, on the other hand, would use the normal selling price net of volume discounts.

8. Which item is typically capitalized and depreciated as a fixed asset?

A. Buildings

B. Inventory

C. Wages Payable

D. Interest Receivable

Fixed assets are long-lived tangible items used in the business's operations, and their cost is capitalized on the balance sheet and depreciated over their estimated useful life. Buildings are a quintessential example: the purchase price plus costs to prepare the property are recorded as an asset, and depreciation spreads that cost over several years as the building provides utility. This contrasts with items like inventory, which is a current asset carried at cost and expensed as cost of goods sold when sold; wages payable, a liability; and interest receivable, a financial asset that is not depreciated. Therefore, the asset that is typically capitalized and depreciated as a fixed asset is the building.

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9. What is a Bargain Renewal Option?

A. A provision to terminate the lease early.

B. A provision allowing lessee to renew the lease for a rental sufficiently lower than the expected fair value and reasonably assured to exercise.

C. A provision to renew at market rate.

D. A purchase option.

A bargain renewal option is a renewal provision where the renewal rent is significantly below the expected fair value and the lessee is reasonably assured to exercise it. Because the renewal is so favorable and highly likely, it effectively becomes part of the lease term under accounting rules. Including this renewal period in the term increases the lease liability and the right of use asset, since payments during that extended term are expected to occur. This is what makes it the best choice: it describes a renewal option that is both below-market and reasonably certain to be exercised, which is exactly how the term should be measured for lessee accounting. The other options describe different features—terminating early, renewing at market rate, or a purchase option—that do not fit the definition of a bargain renewal option.

10. A very high receivable turnover generally indicates which of the following?

A. Fast collection and possibly tighter credit policy

B. Slow collection and poor credit policy

C. High inventory levels

D. Low price strategy

A very high receivable turnover means the company is converting its credit sales into cash very quickly. This happens when customers pay promptly and/or when the firm maintains strict credit terms, reducing the amount of receivables outstanding. The turnover is calculated by dividing net credit sales by average accounts receivable, so a higher ratio points to faster collections (lower days sales outstanding) and often a tighter credit policy that limits the amount of receivables carried. It doesn't reflect how fast inventory turns or pricing strategy, which are governed by other metrics. So the best interpretation is that collections are fast and the firm may be enforcing tighter credit terms.

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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:

https://clfpfinancialtaxacctforleases.examzify.com

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

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