FINANCIAL ACCOUNTING AND REPORTING-CPA 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 does the IFRS principle change typically require in financial statements?**

   A. Prior disclosures only

   B. Changes to be applied prospectively

   C. Three balance sheets and two of each other statement

   D. Only current period statements

2. **What type of accounting treatment is applied to capital leases from the lessee's perspective?**

   A. Recorded as operating expenses only

   B. Both assets and liabilities recognized

   C. Only expenses are recorded

   D. Not recorded on the balance sheet

3. **What is the role of the Primary Beneficiary in relation to a Variable Interest Entity (VIE)?**

   A. To have no decision-making power

   B. To be the entity that has power to direct activities of the VIE

   C. To solely absorb profits generated by the VIE

   D. To provide financial support without decision-making authority

4. **What describes zero coupon bonds?**

   A. Bonds paid at a fixed premium

   B. Bonds with periodic interest payments

   C. "Deep discount bonds" sold without stated interest

   D. Bonds that participate in income

5. **What characterizes mortgage bonds?**

   A. They are backed by corporate profits

   B. They are secured by real property

   C. They have a longer maturity than standard bonds

   D. They have flexible interest rates

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6. What defines a lease?

A. Agreement between a lender and a borrower

B. A contractual agreement to buy property

C. A contractual agreement between a lessor and a lessee

D. An agreement that entails ownership transfer

7. Which of the following statements about straight-line and accelerated depreciation methods is least accurate?

A. Accelerated depreciation methods will increase total depreciation expense in the latter years.

B. Accelerated depreciation methods will decrease taxes in early years.

C. Straight-line methods will have higher book values for assets initially.

D. Units-of-production methods will overstate income during low production periods.

8. What is the bond interest expense for St. Petersburg Glass Company for year 1 using straight-line amortization?

A. $532.50

B. $1,467.50

C. $4,792.50

D. Bond interest expense cannot be amortized

9. Which agency's guidelines do companies usually follow concerning uncertain tax positions?

A. Financial Accounting Standards Board

B. Internal Revenue Service

C. International Accounting Standards Board

D. U.S. Securities and Exchange Commission

10. According to lessor accounting for operating leases, how is rental income recognized?

A. When the payment is received

B. Generally recognized on an accrual basis

C. In the final accounting period of the lease

D. At the start of the lease agreement

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Answers

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

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Explanations

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1. What does the IFRS principle change typically require in financial statements?

A. Prior disclosures only

B. Changes to be applied prospectively

C. Three balance sheets and two of each other statement

D. Only current period statements

The correct answer is that the IFRS principle change typically requires three balance sheets and two of each other statement. When there is a change in accounting policy under IFRS, particularly if it is a retrospective adjustment, entities are often required to present additional comparative information to help stakeholders understand the impact of the change on the financial statements. In accordance with IFRS, when a change in accounting policy is applied retrospectively, organizations are required to present the balance sheet as of the beginning of the earliest period presented, as well as the balance sheets of the current period and the previous period. This results in a total of three balance sheets being displayed. Additionally, for each of those periods presented, two of each statement (such as the income statement and cash flow statement) are typically needed to ensure users can analyze the financial position and performance consistently across the affected periods. This requirement for additional balance sheets and statements is intended to provide transparency and comparability in financial reporting, ensuring that the users of financial statements can assess how changes in accounting principles impact financial position and results of operations over time.

2. What type of accounting treatment is applied to capital leases from the lessee's perspective?

A. Recorded as operating expenses only

B. Both assets and liabilities recognized

C. Only expenses are recorded

D. Not recorded on the balance sheet

When accounting for capital leases from the lessee's perspective, the correct treatment involves recognizing both assets and liabilities on the balance sheet. This is because a capital lease is effectively a form of financing, where the lessee obtains the right to use an asset in exchange for future lease payments. Under generally accepted accounting principles (GAAP) and International Financial Reporting Standards (IFRS), a capital lease is treated similarly to purchasing an asset with debt. The asset is recorded as property, plant, and equipment on the balance sheet, reflecting the lessee's right to use the asset. Concurrently, a liability is established to represent the obligation to make future lease payments. This treatment provides a more accurate picture of the lessee's financial position, as it acknowledges both the resources they control (the leased asset) and their associated obligations (the lease liabilities). This approach contrasts with operating leases, where the lease payments are typically treated as an expense and not recorded on the balance sheet in the same manner. Thus, the recognition of both assets and liabilities for capital leases enhances transparency and provides stakeholders with additional insight into the lessee's financial commitments and asset utilization.

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3. What is the role of the Primary Beneficiary in relation to a Variable Interest Entity (VIE)?

A. To have no decision-making power

B. To be the entity that has power to direct activities of the VIE

C. To solely absorb profits generated by the VIE

D. To provide financial support without decision-making authority

The role of the Primary Beneficiary in relation to a Variable Interest Entity (VIE) is to be the entity that has the power to direct the activities of the VIE. This is significant because the Primary Beneficiary is responsible for determining how the VIE operates and makes decisions that affect its financial performance. The designation of a Primary Beneficiary is crucial for financial reporting purposes, as it determines which entity will consolidate the VIE's financial statements into its own. The Primary Beneficiary must not only have the power to direct activities but also must have the obligation to absorb losses or the right to receive benefits of the VIE. In contrast, other roles or levels of involvement, such as having no decision-making power, solely absorbing profits, or providing financial support without authority, do not fulfill the requirements for being considered the Primary Beneficiary. These alternatives left out the critical component of having the actual decision-making influence that ultimately defines the controlling relationship with the VIE.

4. What describes zero coupon bonds?

A. Bonds paid at a fixed premium

B. Bonds with periodic interest payments

C. "Deep discount bonds" sold without stated interest

D. Bonds that participate in income

Zero coupon bonds are specifically designed to be sold at a significant discount to their face value and do not pay periodic interest payments, which distinguishes them from traditional bonds. The term "deep discount bonds" accurately encapsulates this feature, as these bonds are sold for much less than their maturity value, allowing the investor to receive a return when the bond matures and is redeemed at its full face value. When an investor purchases a zero coupon bond, they essentially make a lower initial investment and do not receive interim interest payments throughout the life of the bond. Instead, the investment grows solely based on the difference between the purchase price and the maturity value. This characteristic is what makes zero coupon bonds appealing to certain investors, such as those planning for specific future expenses. Other options like bonds paid at a fixed premium, those with periodic interest payments, or bonds that participate in income do not accurately capture the unique nature of zero coupon bonds, making them less relevant to the correct answer.

5. What characterizes mortgage bonds?

A. They are backed by corporate profits

B. They are secured by real property

C. They have a longer maturity than standard bonds

D. They have flexible interest rates

Mortgage bonds are characterized by being secured by real property, typically in the form of real estate assets. This means that the bondholders have a claim on the underlying real estate collateral in case of default by the issuer. By securing the bonds with physical assets, issuers can often offer these securities at a lower interest rate compared to unsecured debt, as investors perceive reduced risk due to the tangible backing. The other aspects associated with mortgage bonds do not define their core characteristics. For example, while corporate profits can affect the overall financial stability of an issuing company, they do not directly back mortgage bonds. Likewise, the maturity of mortgage bonds is not inherently longer than that of standard bonds, as maturities can vary widely in both categories. Lastly, while some mortgage bonds may have adjustable interest rates, this is not a defining characteristic, as many mortgage bonds are issued with fixed interest rates.

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6. What defines a lease?

A. Agreement between a lender and a borrower

B. A contractual agreement to buy property

C. A contractual agreement between a lessor and a lessee

D. An agreement that entails ownership transfer

A lease is defined as a contractual agreement between a lessor (the party granting the lease) and a lessee (the party acquiring the lease). This agreement allows the lessee to use the property for a specified period in exchange for payment, typically called rent. The fundamental components of a lease include the terms of use, duration, and financial arrangements, which clearly differentiate it from other contracts. Other types of agreements mentioned, such as those between a lender and a borrower or a contractual agreement to buy property, do not accurately represent the intent of a lease. A loan agreement involves borrowing money rather than the use of a property. Similarly, an agreement to buy property implies ownership transfer, which is not the case in a lease scenario since ownership remains with the lessor throughout the lease term. Lastly, the aspect of ownership transfer is explicitly related to different legal arrangements, such as sales agreements, rather than leases. Thus, the correct identification of a lease as a contractual agreement between a lessor and a lessee aptly encapsulates its definition in a financial context.

7. Which of the following statements about straight-line and accelerated depreciation methods is least accurate?

A. Accelerated depreciation methods will increase total depreciation expense in the latter years.

B. Accelerated depreciation methods will decrease taxes in early years.

C. Straight-line methods will have higher book values for assets initially.

D. Units-of-production methods will overstate income during low production periods.

The statement that accelerated depreciation methods will increase total depreciation expense in the latter years is least accurate. This is because accelerated depreciation methods, such as double-declining balance, allocate a higher amount of depreciation in the earlier years of an asset's life and a decreasing amount in the later years. As a result, total depreciation expense over the asset's useful life does not increase in the later years; rather, it is back-loaded after front-loading the depreciation expenses in the initial years. In contrast, the other statements hold true based on the characteristics of accelerated and straight-line depreciation methods. Accelerated depreciation methods indeed reduce taxable income more in the early years, resulting in tax savings at that time. Straight-line methods cause assets to retain higher book values initially, as the depreciation expense is consistent each period. Lastly, while units-of-production methods offer variable expense recognition based on activity levels, it can be argued that low production periods may not sufficiently match expenses to revenues, potentially leading to an overstatement of income.

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8. What is the bond interest expense for St. Petersburg Glass Company for year 1 using straight-line amortization?

A. $532.50

B. $1,467.50

C. $4,792.50

D. Bond interest expense cannot be amortized

To determine the bond interest expense for St. Petersburg Glass Company using straight-line amortization, it is essential to understand the components of bond interest expense, which includes both the cash interest paid and any amortization of bond premiums or discounts. In this scenario, assuming the company issued bonds at a discount or premium, the straight-line method means that the total amount of the premium or discount will be amortized evenly over the life of the bonds. Therefore, the annual interest expense is calculated by adding the cash interest payments to the amount of amortization recognized for that year. If the total cash interest payment for the bonds is, for example, a fixed percentage based on the bond's face value, that figure is calculated independently. The amortization is then added to or subtracted from the cash interest payment to find the total bond interest expense for that year. Thus, if the total bond interest expense for year 1 is $1,467.50 when calculated using these principles, this reflects the sum of the cash interest payments and the straight line amortization of any premium or discount for that year, resulting in the correct answer being identified as the total bond interest expense.

9. Which agency's guidelines do companies usually follow concerning uncertain tax positions?

A. Financial Accounting Standards Board

B. Internal Revenue Service

C. International Accounting Standards Board

D. U.S. Securities and Exchange Commission

Companies typically follow the guidelines established by the Internal Revenue Service (IRS) concerning uncertain tax positions. The IRS provides specific regulations and interpretations related to tax laws that affect how businesses approach their reporting of uncertain tax positions. When a company recognizes uncertainty in its tax positions, it must determine the likelihood of the position being sustained upon examination by tax authorities, which includes guidelines from the IRS. This assessment directly impacts how companies report these uncertainties in their financial statements, ensuring compliance with tax regulations and reducing the risk of penalties. The other agencies mentioned, while influential in their fields, do not specifically focus on uncertain tax positions. The Financial Accounting Standards Board (FASB) sets accounting standards in the U.S. but would reference IRS guidelines when it comes to tax-related issues. The International Accounting Standards Board (IASB) deals with global accounting standards that may not focus specifically on U.S. tax positions. The U.S. Securities and Exchange Commission (SEC) oversees securities laws and regulations impacting public companies, but it does not provide detailed tax guidance.

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10. According to lessor accounting for operating leases, how is rental income recognized?

A. When the payment is received

B. Generally recognized on an accrual basis

C. In the final accounting period of the lease

D. At the start of the lease agreement

Rental income for operating leases is generally recognized on an accrual basis. This means that income is recorded in the periods in which it is earned, rather than when cash is received. Under the accrual accounting method, lessors will recognize rental income consistently over the lease term, even if payments are not received at that exact time. This approach aligns with the requirement of matching revenues and expenses to the appropriate periods they relate to, which is a core principle in accounting. By recognizing rental income on an accrual basis, lessors ensure that their financial statements reflect the economic reality of the lease transactions, showing income as it is earned rather than when payments are actually made. For example, if a lease agreement stipulates monthly rental payments, the lessor will recognize income each month, regardless of whether the cash payment is physically received at that moment. This provides a more accurate picture of the financial performance related to leased assets.

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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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