

Becker CPA Financial Accounting and Reporting (FAR) Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

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Table of Contents

Copyright	1
Table of Contents	2
Introduction	3
How to Use This Guide	4
Questions	5
Answers	8
Explanations	10
Next Steps	16

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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.

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!

Questions

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- 1. Under the private company alternative method of goodwill accounting in U.S. GAAP, how is goodwill amortized?**
 - A. On a declining balance basis over a minimum of 15 years**
 - B. Using straight-line amortization over 10 years or less**
 - C. At fair value only if there's an annual reevaluation**
 - D. As a non-depreciable asset with no amortization**

- 2. How is the ending fair value of plan assets calculated?**
 - A. Beginning fair value minus contributions plus returns minus benefit payments.**
 - B. Beginning fair value plus contributions plus actual returns minus withdrawals.**
 - C. Beginning fair value plus contributions plus actual returns minus benefit payments.**
 - D. Beginning fair value minus expenses plus actual returns plus contributions.**

- 3. What does the statement of changes in fiduciary net position typically include?**
 - A. Management analysis and budget summaries**
 - B. Additions, deductions, and change in net position**
 - C. Notes to financial statements and required disclosures**
 - D. Investment performance and compliance reports**

- 4. Which type of costs must be capitalized when developing computer software for internal use?**
 - A. Training costs**
 - B. Post-implementation maintenance costs**
 - C. Costs incurred after preliminary project state**
 - D. Costs incurred during the planning state**

- 5. How is the journal entry for recognizing a purchase order of supplies recorded?**
 - A. Debit Supplies, Credit Budgetary Control**
 - B. Debit Encumbrances, Credit Appropriations**
 - C. Debit Encumbrances, Credit Budgetary Control**
 - D. Debit Expenditure, Credit Vouchers Payable**

- 6. When substantial doubt is alleviated, which disclosure is NOT required?**
- A. Management's plans that alleviate the substantial doubt**
 - B. The primary conditions or events that raised substantial doubt**
 - C. The date when the financial statements will be issued**
 - D. Management's evaluation of the significance of conditions related to obligations**
- 7. What does the term "underlying" refer to in relation to derivative financial instruments?**
- A. A specific price, rate, or other variable**
 - B. A specified unit of measure**
 - C. A type of derivative financial instrument**
 - D. A condition for hedge designation**
- 8. How is goodwill impairment determined under U.S. GAAP?**
- A. By comparing the carrying value to the fair value of the parent company**
 - B. By comparing the carrying value of the reporting unit to its fair value**
 - C. By assessing the earnings potential of the subsidiary**
 - D. By calculating the book value versus market value of all assets**
- 9. When does a non-profit organization recognize conditional promises as revenue?**
- A. As soon as they are made**
 - B. When cash is received**
 - C. Once the conditions are met**
 - D. At the end of the fiscal year**
- 10. What is the primary purpose of the Private Company Council (PCC)?**
- A. To enforce U.S. GAAP among all companies**
 - B. To improve standard setting for privately held companies**
 - C. To provide tax guidelines for private companies**
 - D. To oversee financial reporting audits**

Answers

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

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Explanations

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1. Under the private company alternative method of goodwill accounting in U.S. GAAP, how is goodwill amortized?

- A. On a declining balance basis over a minimum of 15 years**
- B. Using straight-line amortization over 10 years or less**
- C. At fair value only if there's an annual reevaluation**
- D. As a non-depreciable asset with no amortization**

Under the private company alternative method of goodwill accounting in U.S. GAAP, goodwill is amortized using straight-line amortization over a period of 10 years or less. This method was introduced as part of the Financial Accounting Standards Board (FASB) Accounting Standards Update specifically aimed at providing private companies with a simplified approach to accounting for goodwill. The choice of an amortization period up to 10 years reflects the intention to provide a reasonable time frame for recognizing the expense related to the goodwill acquired, while also allowing for the flexibility to choose any period that the company determines within that limit. This is notably different from public companies, which generally test goodwill for impairment at least annually and do not amortize goodwill. This approach is beneficial for private companies, as it reduces the complexity of regular impairment testing while still acknowledging that goodwill does have a finite value that can be systematically amortized. By utilizing straight-line amortization, private companies can also more readily predict and account for the impact of goodwill on their financial statements over time.

2. How is the ending fair value of plan assets calculated?

- A. Beginning fair value minus contributions plus returns minus benefit payments.**
- B. Beginning fair value plus contributions plus actual returns minus withdrawals.**
- C. Beginning fair value plus contributions plus actual returns minus benefit payments.**
- D. Beginning fair value minus expenses plus actual returns plus contributions.**

The calculation of the ending fair value of plan assets reflects the changes over a reporting period due to various factors. To arrive at the correct methodology, the process involves starting with the beginning fair value of the plan assets, then adjusting that figure by accounting for contributions made during the period, the actual returns generated by the assets, and the benefit payments that have been disbursed to retirees or beneficiaries. Starting with the beginning fair value provides a foundation. Adding contributions is necessary because those new funds increase the total asset value available to the plan. Actual returns, whether they are gains or losses from investments, further adjust the asset value, as they represent the performance of the invested funds. Finally, subtracting benefit payments accounts for the distributions made to beneficiaries, which reduces the total value of the assets held by the plan. This comprehensive approach correctly captures all relevant inflows and outflows, leading to an accurate assessment of the ending fair value of plan assets. Other options do not accurately incorporate all of these elements or may include incorrect terms, making them unsuitable for this calculation.

3. What does the statement of changes in fiduciary net position typically include?

- A. Management analysis and budget summaries
- B. Additions, deductions, and change in net position**
- C. Notes to financial statements and required disclosures
- D. Investment performance and compliance reports

The statement of changes in fiduciary net position is a key financial statement for fiduciary funds, which include trust funds and pension funds. This statement provides a detailed account of the inflows and outflows of resources within these funds over a specific reporting period. The correct choice emphasizes the components that the statement includes: additions (such as contributions, earnings from investments, and other inflows) and deductions (such as benefits paid, administrative expenses, and other outflows). The net effect of these activities results in the change in net position, highlighting whether the fund's net assets have increased or decreased over the reporting period. This focus on additions, deductions, and the overall change in net position is crucial for stakeholders, as it provides insights into the fund's financial activities and overall health. Other options such as management analysis, notes to financial statements, or compliance reports, while valuable in their own contexts, do not specifically pertain to the contents of the statement of changes in fiduciary net position.

4. Which type of costs must be capitalized when developing computer software for internal use?

- A. Training costs
- B. Post-implementation maintenance costs
- C. Costs incurred after preliminary project state**
- D. Costs incurred during the planning state

When developing computer software for internal use, the costs that must be capitalized are those incurred after the preliminary project stage. This captures the expenditures that directly contribute to the software's development and readiness for use. Costs that occur after the preliminary project stage typically include things like costs for design, coding, installation, and testing. These phases involve tangible development work that creates the final asset, which is why they are capitalized on the balance sheet rather than being expensed immediately. This capitalization is in alignment with the accounting standards, which state that costs that enhance future economic benefits should be recognized as an asset. In contrast, costs associated with training employees, post-implementation maintenance, and those incurred during the planning stage, do not contribute directly to the creation of the software itself and therefore should be expensed as incurred. Training costs are operational expenses, maintenance costs ensure the software continues to function properly after it has been implemented, and development activities in the planning stage do not involve developing the software product itself. Thus, the capitalization of costs is specifically justified for expenses incurred as the project moves beyond the preliminary project phase, solidifying the correct focus of capitalizing only relevant production costs.

5. How is the journal entry for recognizing a purchase order of supplies recorded?

- A. Debit Supplies, Credit Budgetary Control**
- B. Debit Encumbrances, Credit Appropriations**
- C. Debit Encumbrances, Credit Budgetary Control**
- D. Debit Expenditure, Credit Vouchers Payable**

The correct choice involves debiting Encumbrances and crediting Budgetary Control, reflecting the process of recognizing a purchase order within governmental accounting. When a purchase order is placed, it signifies a commitment to spend funds for specific supplies, and this is recorded through an encumbrance entry to ensure that those funds are reserved for the related expenditure. Debiting Encumbrances increases the encumbrance account, which is utilized to track the budgeted amount that has been earmarked for a future obligation such as supplies. This entry represents an assurance that the allocated budget will cover the future expenditure once the supplies are received. Crediting Budgetary Control acknowledges the reduction in available budget due to the commitment made through the purchase order. This practice is essential in governmental accounting, as it allows for better tracking and control of financial resources, ensuring that overspending does not occur. This method of accounting helps safeguard against fiscal mismanagement by maintaining a clear outline of what budgetary resources have been committed and ensuring that the funds are reserved until the actual expenditure occurs upon receipt of the supplies.

6. When substantial doubt is alleviated, which disclosure is NOT required?

- A. Management's plans that alleviate the substantial doubt**
- B. The primary conditions or events that raised substantial doubt**
- C. The date when the financial statements will be issued**
- D. Management's evaluation of the significance of conditions related to obligations**

When substantial doubt about an entity's ability to continue as a going concern is alleviated, certain disclosures become necessary to ensure that users of the financial statements are properly informed about the circumstances surrounding that doubt and how it has been addressed. The correct answer indicates that the date when the financial statements will be issued is not a required disclosure in this context. This is because, while the issuance date is relevant to the timing of financial reporting, it does not directly relate to the alleviation of substantial doubt regarding the entity's ability to continue as a going concern. The focus of required disclosures is on how the doubt was raised, management's plans to mitigate that doubt, and management's assessment of any relevant conditions. On the other hand, management's plans to alleviate the substantial doubt, the primary conditions or events that raised that doubt, and management's evaluation of the significance of those conditions are all essential to provide stakeholders with a comprehensive understanding of the situation. They help users assess the entity's future viability and the adequacy of the response to previously identified risks.

7. What does the term "underlying" refer to in relation to derivative financial instruments?

- A. A specific price, rate, or other variable**
- B. A specified unit of measure**
- C. A type of derivative financial instrument**
- D. A condition for hedge designation**

The term "underlying" in the context of derivative financial instruments refers to the specific price, rate, or other variable upon which the derivative's value is based. This could include assets such as stocks, bonds, commodities, interest rates, or exchange rates. For instance, in a stock option, the underlying asset is the share of stock itself; the option's value fluctuates based on the stock's market price movements. Understanding the underlying factor is crucial because it helps in determining how the derivative will perform and is essential for both pricing and assessing risk. The characteristics of the underlying variable directly impact the dynamics of the derivative, making this aspect foundational in derivative transactions. The other options address different aspects of derivatives but do not accurately reflect what "underlying" specifically means. For example, a specified unit of measure does not capture the essence of the underlying mechanism that drives the value of a derivative. Similarly, terms related to types of derivatives or conditions for hedge designation do not define the core concept of what the underlying is.

8. How is goodwill impairment determined under U.S. GAAP?

- A. By comparing the carrying value to the fair value of the parent company**
- B. By comparing the carrying value of the reporting unit to its fair value**
- C. By assessing the earnings potential of the subsidiary**
- D. By calculating the book value versus market value of all assets**

Goodwill impairment under U.S. GAAP is assessed by comparing the carrying value of the reporting unit, which includes goodwill, to its fair value. This assessment is conducted as part of an annual impairment test or whenever there is an indication that goodwill might be impaired. When determining impairment, if the fair value of the reporting unit is less than its carrying value, an impairment loss is recognized. The impairment loss is measured as the difference between the carrying amount of the reporting unit and its fair value. This process ensures that goodwill on the balance sheet accurately reflects the economic reality of the reporting unit's value. The other options do not align with the established method for assessing goodwill impairment under GAAP. For example, assessing the earnings potential of the subsidiary does not directly indicate whether goodwill is impaired, and calculating the book versus market value of all assets is not the standard process for testing goodwill impairment. Instead, U.S. GAAP requires the focus specifically on the reporting unit and its fair value in relation to goodwill.

9. When does a non-profit organization recognize conditional promises as revenue?

- A. As soon as they are made**
- B. When cash is received**
- C. Once the conditions are met**
- D. At the end of the fiscal year**

A non-profit organization recognizes conditional promises as revenue only once the conditions specified in the promise have been met. This is in alignment with generally accepted accounting principles (GAAP), which require that revenue is recognized when it is both earned and realizable. In the case of a conditional promise, the revenue is not considered earned until the specific conditions tied to that promise are fulfilled. For example, if a donor pledges a donation contingent upon the organization achieving certain milestones, the revenue from that pledge would only be recognized once those milestones are accomplished. This treatment is crucial as it ensures that the organization's revenue reporting accurately reflects its actual financial health and the certainty of the resources it expects to receive. It helps maintain transparency and provides stakeholders with a clearer picture of the organization's revenue-generating activities.

10. What is the primary purpose of the Private Company Council (PCC)?

- A. To enforce U.S. GAAP among all companies**
- B. To improve standard setting for privately held companies**
- C. To provide tax guidelines for private companies**
- D. To oversee financial reporting audits**

The primary purpose of the Private Company Council (PCC) is to improve standard setting for privately held companies. Established by the Financial Accounting Foundation, the PCC was created to make recommendations on improvements to U.S. generally accepted accounting principles (GAAP) that pertain specifically to private companies. This focuses on addressing the unique needs and concerns of private companies, which often have different reporting requirements and constraints compared to public companies. By providing a voice for privately held businesses in the standard-setting process, the PCC seeks to enhance the relevance and usability of financial reporting for these entities, thus helping them better reflect their financial position and performance. Other options touch on important aspects of the financial reporting landscape, but they do not accurately capture the PCC's main role. For instance, while enforcing U.S. GAAP is critical, it is not the PCC's focus, as enforcement is primarily the role of the Financial Accounting Standards Board (FASB). Similarly, providing tax guidelines falls outside the PCC's intended purpose, as tax matters are typically governed by different regulatory bodies. Oversight of financial reporting audits pertains more to auditing standards and practices rather than the specific standard-setting focus of the PCC. Hence, the PCC's primary mission is indeed centered on improving the standards applicable

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://beckercpafar.examzify.com>

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

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