

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

STUDY GUIDE



SAMPLE STUDY GUIDE WITH LIMITED QUESTIONS

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THE FULL VERSION STUDY GUIDE

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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. What are the three elements of faithful representation?**
 - A. Relevance, accountability, and verifiability
 - B. Neutrality, completeness, and freedom from error
 - C. Consistency, clarity, and comparability
 - D. Integrity, transparency, and document retention
- 2. What are common revenue sources for a university that do not have donor restrictions?**
 - A. Loans from students and government
 - B. Government aid, gifts, and endowment income
 - C. Sales of textbooks and merchandise
 - D. Investment income and stock market gains
- 3. Which of the following is an enhancing qualitative characteristic of financial information?**
 - A. Predictive value
 - B. Understandability
 - C. Completeness
 - D. Faithfulness
- 4. What is a primary responsibility of governments regarding fiduciary funds?**
 - A. Directly managing investments for citizens
 - B. Administering benefits for retired employees
 - C. Monitoring compliance and the allocation of resources
 - D. Evaluating the performance of private organizations
- 5. What is the main purpose of a permanent fund?**
 - A. To report resources for unrestricted use
 - B. To support government programs using principal funds
 - C. To report legally restricted resources only for earnings
 - D. To manage cash reserves for future investments

- 6. What are the two methods of determining goodwill under the IFRS acquisition method?**
- A. Full goodwill method and variable goodwill method
 - B. Full goodwill method and partial goodwill method
 - C. Partial goodwill method and excess goodwill method
 - D. Basic goodwill method and advanced goodwill method
- 7. Under IFRS, how are research and development costs treated?**
- A. Capitalized for all expenses
 - B. Expensed as incurred without exception
 - C. Only development costs can be capitalized under certain conditions
 - D. Recorded as a long-term asset
- 8. What financial statements are required for individual governmental fund types?**
- A. Balance sheet and statement of cash flows
 - B. Balance sheet and income statement
 - C. Balance sheet and statement of revenues, expenditures, and changes in fund balance
 - D. Statement of activities and cash flow statement
- 9. Which characteristic defines administrative involvement in government operations?**
- A. Exercising complete control over all fund expenditures
 - B. Monitoring compliance with established requirements
 - C. Determining direct benefits for resource providers
 - D. Distributing funds without oversight or control
- 10. What distinguishes basic EPS from diluted EPS?**
- A. Basic EPS accounts for all potential common shares
 - B. Basic EPS assumes a simple capital structure
 - C. Diluted EPS uses net income, while basic does not
 - D. Basic EPS includes interest expenses

Answers

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

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Explanations

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1. What are the three elements of faithful representation?

- A. Relevance, accountability, and verifiability
- B. Neutrality, completeness, and freedom from error**
- C. Consistency, clarity, and comparability
- D. Integrity, transparency, and document retention

The three elements of faithful representation are neutrality, completeness, and freedom from error. Faithful representation is a fundamental qualitative characteristic of financial reporting that ensures that the information presented is a true depiction of the economic phenomena it purports to represent. Neutrality means that the information is free from bias and does not favor one party over another. It is crucial for maintaining trust and credibility in financial reports, as stakeholders need assurance that the data is impartial and reliable. Completeness involves providing all necessary information that users need to understand the financial statement. An incomplete financial statement can mislead users, rendering it less useful for decision-making purposes. Freedom from error indicates that the reported information is accurate and not subject to significant mistakes. While it is understood that some errors may still occur, the aim is to minimize these to the best extent possible, enhancing the overall reliability of the financial representation. The other options focus on different aspects of financial reporting or attributes that do not directly define faithful representation. This differentiates why the correct choice emphasizes the core principles that ensure users can rely on the information presented in financial statements.

2. What are common revenue sources for a university that do not have donor restrictions?

- A. Loans from students and government
- B. Government aid, gifts, and endowment income**
- C. Sales of textbooks and merchandise
- D. Investment income and stock market gains

When considering common revenue sources for a university that are free from donor restrictions, the focus is on general funding sources that the institution can utilize without particular constraints imposed by donors. The correct choice includes government aid, gifts, and endowment income, as these can often be used at the discretion of the university. Government aid, such as grants and funding, typically comes without specific requirements on how the university must spend it. Gifts that are not designated for specific projects or funds also give the institution flexibility in their use. Additionally, endowment income that is not restricted allows for broader use in support of the university's mission, such as operational expenses or general scholarships. Other options, while comprising potential revenue sources, are frequently tied to specific conditions or limitations. For example, loans from students and government might come with stipulations for how they are to be utilized or repaid, while sales of textbooks and merchandise generally aim to generate revenue for the university but may not provide unrestricted funds. Investment income and stock market gains might also be restricted if they originate from specific endowments or projects designated by donors. Thus, the option highlighting government aid, gifts, and endowment income emphasizes unrestricted funding sources that are vital for maintaining the operational flexibility needed by universities.

3. Which of the following is an enhancing qualitative characteristic of financial information?

- A. Predictive value
- B. Understandability**
- C. Completeness
- D. Faithfulness

Understandability is considered an enhancing qualitative characteristic of financial information because it enables users to comprehend the significance of the information presented. This characteristic aids users in interpreting financial reports effectively, ensuring that they grasp the underlying data and can make informed decisions based on that understanding. While predictive value is fundamental to the usefulness of financial information, it pertains specifically to the ability to forecast future outcomes based on current data. Completeness relates to the extent to which all necessary information is included in the financial statements for users to understand a company's financial position and performance. Faithfulness refers to how accurately the information depicts the economic phenomena it purports to represent. All of these concepts are vital for financial reporting, but understandability is what enhances the clarity and accessibility of that information for users.

4. What is a primary responsibility of governments regarding fiduciary funds?

- A. Directly managing investments for citizens
- B. Administering benefits for retired employees
- C. Monitoring compliance and the allocation of resources**
- D. Evaluating the performance of private organizations

Fiduciary funds are specific types of funds used by governments to account for resources held in a trust or similar arrangement for someone else. The primary responsibility associated with fiduciary funds is to monitor compliance with legal requirements and the appropriate allocation and management of resources held on behalf of others. This includes ensuring that the funds are used in accordance with the established conditions set forth by the trust agreement or relevant statutes. Governments must ensure that they are acting in the best interest of the beneficiaries of these funds, which may involve oversight of financial activities and adherence to governance standards. This function is critical as it safeguards the interests of all parties involved and promotes accountability in the management of the funds. Proper monitoring helps prevent misuse of the resources and ensures they are allocated in accordance with the intended purpose, reflecting the fiduciary responsibility that governments hold in these contexts.

5. What is the main purpose of a permanent fund?

- A. To report resources for unrestricted use
- B. To support government programs using principal funds
- C. To report legally restricted resources only for earnings**
- D. To manage cash reserves for future investments

The main purpose of a permanent fund is to report legally restricted resources only for earnings. This type of fund is established primarily to provide income generated from its principal over time, rather than using the principal itself. In government accounting, permanent funds typically have restrictions that prevent the use of the fund's principal amount for any immediate spending. Instead, only the income or earnings generated from the investments of the principal can be allocated for government programs or services. This functionality distinguishes permanent funds from other types of funds that may allow more flexible access to both principal and earnings. By focusing on legally restricting resources to their earnings, permanent funds ensure long-term financial sustainability of governmental services while balancing the need to maintain the principal for future generations.

6. What are the two methods of determining goodwill under the IFRS acquisition method?

- A. Full goodwill method and variable goodwill method
- B. Full goodwill method and partial goodwill method**
- C. Partial goodwill method and excess goodwill method
- D. Basic goodwill method and advanced goodwill method

Under the International Financial Reporting Standards (IFRS), when determining goodwill in a business combination, the two recognized methods are the full goodwill method and the partial goodwill method. The full goodwill method involves recognizing the entire goodwill associated with the acquired company, which includes the fair value of both the controlling interest and any non-controlling interest in the subsidiary. This method reflects the comprehensive value of the acquired business as a whole. On the other hand, the partial goodwill method only accounts for the goodwill attributable to the acquirer's share of the subsidiary. In this case, the goodwill is calculated as the excess of the consideration transferred for the acquisition over the fair value of the identifiable net assets acquired, only considering the proportion of the acquired business that the acquirer owns. Choosing the correct method depends on whether the acquirer recognizes non-controlling interests at fair value (full goodwill) or at their proportionate share of the acquired assets (partial goodwill). Understanding these methods is crucial for correctly reporting goodwill on the balance sheet following an acquisition, in compliance with IFRS guidelines. The other options do not reflect the terminology or framework established under IFRS for recognizing goodwill, which is why they do not provide the accurate methods specified.

7. Under IFRS, how are research and development costs treated?

- A. Capitalized for all expenses
- B. Expensed as incurred without exception
- C. Only development costs can be capitalized under certain conditions**
- D. Recorded as a long-term asset

Under IFRS, the treatment of research and development costs involves specific criteria that distinguish between the two phases: research and development. Research costs are always expensed as incurred, reflecting the uncertainty and the lack of future economic benefits associated with these expenditures. This aligns with the concept that research activities generally do not yield measurable outcomes that can reliably be capitalized. On the other hand, development costs can be capitalized, but only if certain criteria are met. These criteria include the intention to complete the asset, the ability to use or sell the asset, the technical feasibility of completing it, and the ability to demonstrate how the asset will generate probable future economic benefits. If these stringent conditions are satisfied, the development costs can be recognized as an intangible asset, allowing them to be capitalized on the statement of financial position. This nuanced approach enables a separation between the uncertain nature of research and the more promising potential of successful development activities, capturing the economic reality of these expenditures accurately on the financial statements.

8. What financial statements are required for individual governmental fund types?

- A. Balance sheet and statement of cash flows
- B. Balance sheet and income statement
- C. Balance sheet and statement of revenues, expenditures, and changes in fund balance**
- D. Statement of activities and cash flow statement

The required financial statements for individual governmental fund types are the balance sheet and the statement of revenues, expenditures, and changes in fund balance. This combination is essential for providing a comprehensive view of a governmental fund's financial position and performance. The balance sheet presents the assets, liabilities, and fund balance at a specific point in time, which is crucial for assessing the fund's financial health. It shows how resources are allocated and what obligations the fund has. The statement of revenues, expenditures, and changes in fund balance details the inflows and outflows of financial resources during a specific period. This statement is particularly important for governmental funds because it tracks the flow of funds, highlighting how revenues are generated and how they are spent, and it ultimately shows any changes in the fund balance over time. This emphasis on fund balance and the specifics of revenues and expenditures are in line with the modified accrual basis of accounting used by governmental funds, which focuses on short-term financial resources. Hence, this choice captures the key aspects necessary for understanding the fiscal accountability of governmental funds. Other options do not accurately align with the requirements for governmental funds, as they include statements better suited for proprietary or different accounting contexts.

9. Which characteristic defines administrative involvement in government operations?

- A. Exercising complete control over all fund expenditures
- B. Monitoring compliance with established requirements**
- C. Determining direct benefits for resource providers
- D. Distributing funds without oversight or control

Monitoring compliance with established requirements is crucial in defining administrative involvement in government operations. This characteristic reflects the responsibility of government entities to ensure that funds are used according to laws, regulations, and policies set forth by governing bodies. Through this oversight, administrative bodies can ensure accountability and transparency in financial transactions, necessary for maintaining public trust. Compliance monitoring involves reviewing processes and outcomes to verify that resources are allocated efficiently and in accordance with statutory and regulatory mandates. It serves as a check on resource utilization, ensuring that government operations align with the intended purposes of public funds and that they meet the performance standards required by law. This characteristic protects public interests and ensures that governmental operations achieve their intended outcomes while preventing misuse or misallocation of funds. The other options reflect misunderstandings of proper administrative duties within government operations. Complete control over all expenditures lacks the nuance of oversight and compliance. Determining direct benefits for resource providers suggests a transactional focus rather than a governance-oriented approach, and distributing funds without oversight undermines accountability, which is a fundamental aspect of public administration.

10. What distinguishes basic EPS from diluted EPS?

- A. Basic EPS accounts for all potential common shares
- B. Basic EPS assumes a simple capital structure**
- C. Diluted EPS uses net income, while basic does not
- D. Basic EPS includes interest expenses

Basic earnings per share (EPS) assumes a simple capital structure, which means it only accounts for the common shares currently outstanding without considering any potential shares that could arise from convertible securities, options, or warrants. This provides a straightforward calculation based solely on the actual number of shares in circulation and the net income available to those shares. In contrast, diluted EPS takes into account all potential common shares that could exist if all convertible securities were exercised or converted into common stock. This results in a lower earnings per share figure compared to basic EPS, as it assumes an increase in the number of shares outstanding, thus spreading the earnings over a larger number of shares. Considering the other choices, basic EPS does not account for all potential common shares, as that is the domain of diluted EPS. Both measures use net income in their calculations, so the distinction regarding net income does not apply here. Lastly, basic EPS does not include interest expenses; generally, it is calculated based on net income attributable to common shareholders, which already accounts for interest expenses as part of the profit calculation.

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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