CHARTERED PROFESSIONAL ACCOUNTANT (CPA) CORE 1 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.

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

1. Under the revaluation model, when the fair value of PPE increases, how is the gain recognized?

A. Gain recognized first to net income up to amount of previous losses; Remaining amount to OCI

B. Entire gain to OCI

C. Not recognized until disposal

D. Gain recognized in some other way

2. Substantive procedures include which of the following?

A. Test of details

B. Substantive analytical procedures

C. Both Test of details and substantive analytical procedures

D. Tests of controls

3. A positive balance for deferred taxes represents a deferred tax asset. True or False?

A. True

B. False

C. Depends on jurisdiction

D. It cannot be determined

4. Accretion is the systematic increase of the obligation over time.

A. False

B. It decreases the obligation over time

C. It is irrelevant to liabilities

D. True

5. A financial instrument is best defined as:

A. A non-transferable asset with no future economic benefits.

B. A document that represents ownership in a company.

C. A contract that creates a financial asset for one party and a financial liability or equity instrument for another.

D. A cash instrument used for currency exchange only.

6. IFRS 11 Joint Ventures requires which method for accounting for joint ventures?

A. Must use equity method.

B. Proportionate consolidation.

C. Cost method.

D. Full consolidation.

7. Which valuation approach is commonly used for insurance purposes?

A. Capitalized cash flow approach

B. Replacement cost approach

C. Discounted cash flow approach

D. Market-based approach

8. If the lease term is 80% of the asset's useful life, does it meet the capital lease criterion by term under ASPE 3065?

A. Yes

B. No

C. Only if PV is 85% of fair value

D. Only if ownership transfer is guaranteed

9. Under IAS 20, how is a non-monetary grant recognized?

A. Recognize the grant at fair value or at a nominal amount

B. Recognize the grant only when cash is received

C. Recognize immediately as revenue

D. Recognize as a liability until used

10. Under ASPE 3031 - Inventory, what is allowed regarding borrowing costs?

A. Borrowing costs must be capitalized

B. Borrowing costs must be expensed

C. There is a choice to capitalize or expense borrowing costs

D. Borrowing costs are ignored

Answers

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

Explanations

1. Under the revaluation model, when the fair value of PPE increases, how is the gain recognized?

A. Gain recognized first to net income up to amount of previous losses; Remaining amount to OCI

B. Entire gain to OCI

C. Not recognized until disposal

D. Gain recognized in some other way

Under the revaluation model for PPE, when fair value rises, the gain is handled by offsetting any prior downward movements that hit profit or loss first. If the asset had previously experienced a decrease in value that reduced net income, the upward revaluation is recognized in net income to the extent of those prior losses. Any remaining portion of the increase is then recorded in equity as a revaluation surplus (OCI). If there were no previous decreases to reverse, the entire gain goes to OCI. This mechanism is why recognizing the gain first in net income up to the amount of previous losses, with the remainder going to OCI, is the correct treatment.

2. Substantive procedures include which of the following?

A. Test of details

B. Substantive analytical procedures

C. Both Test of details and substantive analytical procedures

D. Tests of controls

Substantive procedures are evidence-gathering activities aimed at detecting material misstatements at the assertion level. They come in two main forms: tests of details, which examine individual transactions, balances, and disclosures to verify accuracy, and substantive analytical procedures, which assess financial information by analyzing plausible relationships and trends, such as comparing ratios or margins over time. Because substantive procedures are about directly detecting misstatements, both tests of details and substantive analytical procedures fall under this category. Tests of controls, by contrast, focus on evaluating the design and operating effectiveness of a client's internal controls and influence how much substantive testing is needed, but are not themselves substantive procedures. Therefore, the combination of tests of details and substantive analytical procedures best identifies substantive procedures.

3. A positive balance for deferred taxes represents a deferred tax asset. True or False?

A. True

B. False

C. Depends on jurisdiction

D. It cannot be determined

Temporary differences between financial reporting and tax rules create deferred tax assets and liabilities. A deferred tax asset arises when deductible differences or tax loss carryforwards will reduce future taxes, so it sits as a positive balance on the asset side of the balance sheet. A deferred tax liability, by contrast, reflects taxable differences that will increase future taxes and appears as a liability (a negative balance). Therefore, a positive balance for deferred taxes represents a deferred tax asset. Some jurisdictions may allow netting, but the fundamental idea is that a positive amount signals an asset.

4. Accretion is the systematic increase of the obligation over time.

A. False

B. It decreases the obligation over time

C. It is irrelevant to liabilities

D. True

Accretion is the unwinding of the discount on a present-value liability as time passes. When an asset retirement or decommissioning obligation is initially recorded, it's measured at a present value. As each period passes, the liability increases by the amount of interest that accrues on its balance at the discount rate, even before any cash outlay occurs. This increase is recognized as accretion expense and raises the carrying amount of the liability on the balance sheet. The actual settlement happens in the future, when the obligation is paid, but the liability grows over time due to the passage of time and the discount unwinding. So the statement is true: accretion systematically increases the obligation over time.

5. A financial instrument is best defined as:

A. A non-transferable asset with no future economic benefits.

B. A document that represents ownership in a company.

C. A contract that creates a financial asset for one party and a financial liability or equity instrument for another.

D. A cash instrument used for currency exchange only.

A financial instrument is defined by the contract it creates that gives rise to a financial asset for one party and a financial liability or equity instrument for another. This captures the essential idea: the instrument is not just a document or a form of cash, but a contractual arrangement that generates rights to future cash flows or ownership rights for different entities. Examples include loans receivable, bonds, shares, and derivatives, all of which involve one party holding a financial asset and another party facing a financial liability or equity claim. The other descriptions are too narrow or inaccurate. A non-transferable asset with no future economic benefits isn't a financial instrument, since these typically involve rights to future cash flows or ownership and are often transferable. A document representing ownership covers only equity and ignores other financial instruments like debt or derivatives. A cash instrument used for currency exchange only is too limited, since financial instruments also include contracts settled in other ways, such as by delivering another asset or cash.

6. IFRS 11 Joint Ventures requires which method for accounting for joint ventures?

A. Must use equity method.

B. Proportionate consolidation.

C. Cost method.

D. Full consolidation.

IFRS 11 uses the equity method for accounting for joint ventures. When there's joint control, you don't consolidate the joint venture's assets and liabilities line-by-line as you would with a subsidiary. Instead, you treat your share of the joint venture as an equity investment: initially recognized at cost, then adjusted each period for your share of the venture's profits or losses and movements in net assets. The investor's profit or loss includes its share of the JV's results, and the carrying amount of the investment increases with profits and decreases with losses and distributions. Any related OCI movements are reflected in the investor's OCI, and impairment is considered if needed. Proportionate consolidation and full consolidation aren't used for joint ventures under IFRS 11, and the cost method isn't the appropriate approach for these arrangements.

7. Which valuation approach is commonly used for insurance purposes?

A. Capitalized cash flow approach

B. Replacement cost approach

C. Discounted cash flow approach

D. Market-based approach

The key idea is to value property for insurance by what it would cost to replace it today. Replacement cost measures the current price to replace the asset with a like-kind and quality item, using current materials and labor rates. Insurance aims to restore the insured to the pre-loss condition, so the amount insured should reflect the actual cost to replace the asset now, not what it was worth when purchased or its depreciation. That's why replacement cost is the commonly used method for insurance purposes. In contrast, methods based on capitalized or discounted cash flows relate to valuing ongoing income streams, and a market-based approach reflects current sale prices, which may differ from replacement costs due to depreciation or market fluctuations.

8. If the lease term is 80% of the asset's useful life, does it meet the capital lease criterion by term under ASPE 3065?

A. Yes

B. No

C. Only if PV is 85% of fair value

D. Only if ownership transfer is guaranteed

In ASPE 3065, a lease is classified as a capital lease by term when the lease term covers a substantial portion of the asset's life, with a common threshold of 75% or more. If the lease term is 80% of the asset's useful (economic) life, it exceeds that threshold, so it meets the by-term criterion and would be classified as a capital lease by term. This classification focuses on how long the asset's use is tied up in the lease, not on ownership transfer or the present value of lease payments, which are separate criteria that can also trigger capital-lease treatment if met.

9. Under IAS 20, how is a non-monetary grant recognized?

A. Recognize the grant at fair value or at a nominal amount

B. Recognize the grant only when cash is received

C. Recognize immediately as revenue

D. Recognize as a liability until used

Non-monetary government grants are treated as support tied to an asset, not as cash that you recognize as revenue. Under IAS 20, they are recognized when there is reasonable assurance that the grant will be received and that the entity will comply with any attached conditions. The asset should be recorded at its fair value, or, if fair value cannot be determined, at a nominal amount. The corresponding credit goes to a government grant account (often shown as a capital reserve or deferred government grant) rather than to revenue. This approach reflects that the grant reduces the cost of obtaining the asset or creates a separate capital source, rather than being income. So this is the best approach because it matches the grant to the asset being acquired and records it at the value of what you actually received, ensuring the financial statements reflect the asset's true cost (or the grant's contribution to that cost) rather than recognizing revenue prematurely or treating the grant as a liability.

10. Under ASPE 3031 - Inventory, what is allowed regarding borrowing costs?

A. Borrowing costs must be capitalized

B. Borrowing costs must be expensed

C. There is a choice to capitalize or expense borrowing costs

D. Borrowing costs are ignored

Under ASPE 3031, borrowing costs tied to the acquisition, construction, or production of inventories that take a substantial period of time to bring to saleable condition can be treated in one of two ways. you may capitalize those borrowing costs as part of the cost of the inventory, or you may expense them in the period in which they are incurred. The key point is that a policy choice exists and must be applied consistently, with any decision disclosed in the accounting policies. If you capitalize, the borrowing costs become part of the inventory cost and do not affect earnings until the inventory is sold; if you expense, the costs are recognized in the period incurred. Borrowing costs not directly attributable to qualifying inventory would generally be expensed. This is why the correct approach is that there is a choice to capitalize or expense borrowing costs.

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://cpacore1.examzify.com

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