

CLFP Financial and Tax Accounting for Leases Practice Exam (Sample)

Study Guide



Everything you need from our exam experts!

Copyright © 2026 by Examzify - A Kaluba Technologies Inc. product.

ALL RIGHTS RESERVED.

No part of this book may be reproduced or transferred in any form or by any means, graphic, electronic, or mechanical, including photocopying, recording, web distribution, taping, or by any information storage retrieval system, without the written permission of the author.

Notice: Examzify makes every reasonable effort to obtain accurate, complete, and timely information about this product from reliable sources.

SAMPLE

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 15

SAMPLE

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

SAMPLE

- 1. Which element of the income statement represents income and expenses that are not generated by the usual course of business and are not considered extraordinary?**
 - A. Other Revenue/Expense**
 - B. PreTax Income**
 - C. Net Income**
 - D. Operating Revenue**

- 2. Which statement correctly defines the Implicit Interest Rate?**
 - A. The rate used to evaluate the lease for tax purposes.**
 - B. The rate that, when applied to minimum lease payments, yields the present value equal to the fair value of the asset at inception.**
 - C. The rate the lessee would borrow to purchase the asset under like terms.**
 - D. The rate used to discount executory costs.**

- 3. Incremental Borrowing Rate is defined as**
 - A. The rate implicit in the lease.**
 - B. The rate the lessee would incur to borrow funds to purchase the asset under terms different from the lease.**
 - C. The rate used to discount the minimum lease payments to their present value.**
 - D. The rate the lessee would incur to borrow funds to purchase the asset under like terms.**

- 4. In what year was the Accounting Standards Codification approved by the FASB?**
 - A. 2009**
 - B. 1999**
 - C. 2015**
 - D. 1985**

- 5. What does the Sales to Working Capital ratio measure?**
 - A. Net Income / Net Sales**
 - B. Net Sales / Working Capital**
 - C. Cost of Goods Sold / Average Inventory**
 - D. Net Sales / Current Assets**

- 6. How is depreciation calculated?**
- A. Recording the full purchase price as an expense in the first year.**
 - B. Doubling the rate each year.**
 - C. Apportioning an asset's original value, less any expected salvage value, over the expected useful life.**
 - D. Based on revenue generated by the asset.**
- 7. Which item is NOT included in Maximum Lease Payments?**
- A. Minimum rentals.**
 - B. Lessee guarantee of the residual value.**
 - C. Penalties for failure to renew.**
 - D. Calculation for lessor to include guaranteed residual.**
- 8. For operating leases, how is rent income recognized when payments are not level?**
- A. Recognized on a straight-line basis over the lease term unless the pattern of usage is more representative.**
 - B. Recognized only when cash is actually received.**
 - C. Recognized as revenue at the end of the lease term.**
 - D. Not recognized until the lessee exercises options.**
- 9. Excess Paid In Capital is defined as:**
- A. The total value of treasury stock.**
 - B. The amount in excess of par value that a business receives from shares sold.**
 - C. The total liabilities of the company.**
 - D. The revenues from operations.**
- 10. Which fixed asset is not depreciated?**
- A. Land**
 - B. Building**
 - C. Equipment**
 - D. Vehicles**

Answers

SAMPLE

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

SAMPLE

Explanations

SAMPLE

1. Which element of the income statement represents income and expenses that are not generated by the usual course of business and are not considered extraordinary?

A. Other Revenue/Expense

B. PreTax Income

C. Net Income

D. Operating Revenue

The key idea is separating what comes from core operations from items outside normal business activities. The income statement shows operating revenue and operating expenses to reflect ongoing, day-to-day business performance. Non-operating items—things not part of the usual course of business—are shown separately. The line for Other Revenue/Expense serves as the catch-all for these non-operating items (such as interest, gains or losses from asset sales, foreign exchange effects, etc.). These are not part of normal operations, and they're not categorized as extraordinary items, so they're presented separately to show their impact on pre-tax income. PreTax Income includes both operating and non-operating results, Net Income is after tax, and Operating Revenue covers core business activity.

2. Which statement correctly defines the Implicit Interest Rate?

A. The rate used to evaluate the lease for tax purposes.

B. The rate that, when applied to minimum lease payments, yields the present value equal to the fair value of the asset at inception.

C. The rate the lessee would borrow to purchase the asset under like terms.

D. The rate used to discount executory costs.

The implicit interest rate is the rate that, when applied to the minimum lease payments, produces a present value equal to the fair value of the asset at the start of the lease. This rate is effectively the rate the lessor charges for the lease. It's the rate used to discount the lease payments to measure the lease liability and to recognize the right-of-use asset. If this rate can't be readily determined, the lessee uses its incremental borrowing rate instead. Executory costs are treated differently and aren't discounted at the implicit rate.

3. Incremental Borrowing Rate is defined as

- A. The rate implicit in the lease.
- B. The rate the lessee would incur to borrow funds to purchase the asset under terms different from the lease.
- C. The rate used to discount the minimum lease payments to their present value.
- D. The rate the lessee would incur to borrow funds to purchase the asset under like terms.**

Incremental borrowing rate is the rate the lessee would incur to borrow funds to purchase the asset under like terms. This is the hypothetical borrowing cost for the lessee when the rate implicit in the lease isn't readily determinable, taking into account the asset type, term, and the lessee's credit risk. It's used to discount the lease payments to their present value when the lease's own implicit rate isn't known. The other descriptions point to related ideas—the explicit lease rate if known, or a generic discount rate—but the defining idea of the incremental borrowing rate is that it's the lessee's own borrowing cost for a purchase under similar terms.

4. In what year was the Accounting Standards Codification approved by the FASB?

- A. 2009**
- B. 1999
- C. 2015
- D. 1985

The Accounting Standards Codification was approved by the FASB in 2009. This approval marked the move to a single, integrated source for US GAAP, reorganizing all authoritative standards by topic rather than by individual pronouncements. The codification was released to the public on July 1, 2009, and became the single authoritative source for nongovernmental US GAAP. The other years listed are not when the ASC was approved.

5. What does the Sales to Working Capital ratio measure?

- A. Net Income / Net Sales
- B. Net Sales / Working Capital**
- C. Cost of Goods Sold / Average Inventory
- D. Net Sales / Current Assets

Sales to Working Capital shows how efficiently a company uses its working capital to generate sales. It is calculated as Net Sales divided by Working Capital (where Working Capital = current assets minus current liabilities). A higher ratio means more sales are produced per dollar of working capital, indicating tighter, more productive use of short-term resources. This metric helps you compare operating efficiency across periods or between firms, keeping in mind that industry norms matter. The other options measure different things: Net Income divided by Net Sales is profit margin; Cost of Goods Sold divided by Average Inventory is inventory turnover; Net Sales divided by Current Assets is a form of asset turnover but ignores the financing component of working capital.

6. How is depreciation calculated?

- A. Recording the full purchase price as an expense in the first year.
- B. Doubling the rate each year.
- C. Apportioning an asset's original value, less any expected salvage value, over the expected useful life.**
- D. Based on revenue generated by the asset.

Depreciation is the systematic allocation of an asset's cost over the period it will be used. You start with the depreciable base, which is the asset's cost minus any expected salvage (residual) value. That amount is then allocated across the asset's estimated useful life, typically evenly in the straight-line approach. For example, if an asset costs 50,000, has a salvage value of 5,000, and a useful life of 10 years, annual depreciation would be $(50,000 - 5,000) / 10 = 4,500$ per year. This matches the idea of apportioning the original value minus salvage over the asset's life. Expensing the full purchase price in the first year ignores use over time, doubling the rate each year describes a different declining-balance method, and tying depreciation to revenue misstates the expense by linking it to sales rather than asset usage.

7. Which item is NOT included in Maximum Lease Payments?

- A. Minimum rentals.
- B. Lessee guarantee of the residual value.
- C. Penalties for failure to renew.
- D. Calculation for lessor to include guaranteed residual.**

Maximum Lease Payments represent the maximum cash outlays the lessee could owe under the lease over its term. These include fixed payments (minimum rentals), amounts the lessee guarantees (like a guaranteed residual value), and penalties that could arise if the lease is terminated or not renewed. They are actual payment obligations, not calculations or methods used by the lessor to determine value. The item describing a calculation for the lessor to include a guaranteed residual isn't a cash payment the lessee would make, so it doesn't belong in Maximum Lease Payments.

8. For operating leases, how is rent income recognized when payments are not level?

- A. Recognized on a straight-line basis over the lease term unless the pattern of usage is more representative.**
- B. Recognized only when cash is actually received.
- C. Recognized as revenue at the end of the lease term.
- D. Not recognized until the lessee exercises options.

Rent income for operating leases is recognized on a straight-line basis over the lease term, ensuring you spread the total expected revenue evenly across the periods the lessee has the right to use the asset. If the payments are not level, you still book straight-line revenue because that matches the ongoing use of the asset over time. The only time you'd deviate is if the pattern of usage clearly reflects a more representative timing of the benefits—in that case, you would recognize revenue according to that usage pattern rather than strictly straight-line. So, even with nonlevel payments, revenue is generally recognized evenly each period, not simply when cash is received, at the end of the term, or only when the lessee exercises options.

9. Excess Paid In Capital is defined as:

- A. The total value of treasury stock.
- B. The amount in excess of par value that a business receives from shares sold.**
- C. The total liabilities of the company.
- D. The revenues from operations.

Excess Paid In Capital is the amount investors pay over the par value of the shares when they buy stock. When stock is issued, part of the proceeds goes to the par value recorded in the stock accounts, and the portion above par is recorded as additional paid-in capital (APIC), a part of shareholders' equity. This represents extra contributed capital from owners and is not an expense, a liability, or revenue. It stays in equity and is conceptually separate from the company's operating income. If stock has no par value, the entire proceeds go into contributed capital.

10. Which fixed asset is not depreciated?

- A. Land**
- B. Building
- C. Equipment
- D. Vehicles

Depreciation is the process of allocating the cost of tangible assets that have finite lives over the period they are used. Land is not depreciated because it generally has an indefinite useful life and does not wear out or become obsolete in the way that buildings, equipment, or vehicles do. When you buy property, you typically separate the cost between land and any structures; the building (and other depreciable improvements) gets depreciated, while the land portion does not. There are exceptions only for land improvements or certain circumstances that have a finite life, but the land itself remains non-depreciable. So the fixed asset that is not depreciated is land.

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!

SAMPLE