

FINANCIAL ACCOUNTING AND REPORTING-CPA 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 financial statement component relates to the repurchase of stock at a price above par value for retirement?**
 - A. Common stock
 - B. Treasury stock
 - C. Paid-in capital
 - D. Retained earnings
- 2. Temporary tax differences are defined by which of the following?**
 - A. They only affect future tax calculations
 - B. They create no deferred tax consequences
 - C. They impact current and future tax calculations and will eventually reverse
 - D. They are irrelevant for financial reporting
- 3. 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
- 4. How should leasehold improvements be accounted for?**
 - A. Written off immediately after the lease ends
 - B. Capitalized and depreciated over the lease life
 - C. Capitalized only if ownership is obtained
 - D. Recorded as asset expenses during the lease
- 5. Which of the following describes an estimate of the effect of a change in accounting principle?**
 - A. Significant Estimates
 - B. Material Adjustments
 - C. Financial Disclosures
 - D. Operational Impact

- 6. How should a company's income tax provision for the second quarter be determined?**
- A. Statutory tax rate for the year
 - B. Effective tax rate expected applicable for the second quarter
 - C. Effective tax rate expected for the full year estimated at the end of the first quarter
 - D. Effective tax rate expected for the full year estimated at the end of the second quarter
- 7. GAAP income tax expense is defined as what?**
- A. The sum of deferred income tax assets only
 - B. The total of current income tax expense and deferred income tax expense
 - C. The average tax rate applied to net income
 - D. The payment made to the IRS during the year
- 8. How should costs for premiums offered to customers be recognized in accounting?**
- A. As liabilities only
 - B. Expensed and recognized as liabilities
 - C. Deferred until customer redeems
 - D. As revenue only
- 9. A company factors its receivables without recourse. What does this imply?**
- A. The company retains all credit risk
 - B. The company transfers all credit risk to the factor
 - C. The company is liable for uncollectible accounts
 - D. The company must buy back uncollectible accounts
- 10. What happens to the G/L adjustment when using the remeasurement method for financial currency accounting?**
- A. It goes to Other Comprehensive Income
 - B. It rolls forward to Retained Earnings
 - C. It is reported on the Balance Sheet
 - D. It affects net income

Answers

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

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Explanations

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1. What financial statement component relates to the repurchase of stock at a price above par value for retirement?

- A. Common stock
- B. Treasury stock
- C. Paid-in capital**
- D. Retained earnings

The component of the financial statements that relates to the repurchase of stock at a price above par value for retirement is paid-in capital. When a company repurchases its own stock, the transaction affects its equity accounts. Specifically, the amount paid in excess of the par value of the stock is typically drawn from paid-in capital, which represents the additional investments made by shareholders beyond the par value of the issued shares. In this scenario, if the stock is bought back at a price higher than its par value, the excess amount over par is recorded as a reduction in the paid-in capital account related to that specific class of stock. This reflects the notion that the company is using its capital resources to buy back shares, hence affecting its overall equity structure. The common stock account would not be directly affected by this transaction since it only reflects the par value of shares issued, and any repurchased shares do not remain in this account. Similarly, treasury stock accounts for shares that a company has repurchased, but it does not address the specific excess over par value that would be adjusted within paid-in capital. Retained earnings are not involved in the repurchase of stock but rather represent cumulative profits that are not distributed as dividends, thus they are not relevant in this particular

2. Temporary tax differences are defined by which of the following?

- A. They only affect future tax calculations
- B. They create no deferred tax consequences
- C. They impact current and future tax calculations and will eventually reverse**
- D. They are irrelevant for financial reporting

Temporary tax differences refer to the discrepancies between the treatment of certain items for accounting purposes and their treatment for tax purposes. These differences are crucial because they will ultimately reverse over time, leading to deferred tax assets or liabilities on the balance sheet. The correct choice highlights that temporary tax differences not only affect current tax calculations but also have implications for future tax calculations. For instance, a company might recognize an expense for accounting purposes in one period, while for tax purposes, it is deductible in a different period. As a result, in the future, the tax liability will be affected, because the company will have a lower taxable income when it takes that deduction. Understanding that these differences will reverse is essential. When the temporary difference is settled, the deferred taxes will come into play, causing the tax liabilities or assets to adjust accordingly. This characteristic is fundamental for accurate financial reporting and tax planning. It contrasts with permanent differences, which do not reverse and therefore do not create deferred tax implications in future periods.

3. 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.

4. How should leasehold improvements be accounted for?

- A. Written off immediately after the lease ends
- B. Capitalized and depreciated over the lease life**
- C. Capitalized only if ownership is obtained
- D. Recorded as asset expenses during the lease

Leasehold improvements should be capitalized and depreciated over the lease term. This accounting treatment is based on the fact that leasehold improvements represent an enhancement to a leased property that provides economic benefits over time. Capitalizing these costs allows for the allocation of the expense over the period which the improvements will be utilized, reflecting the matching principle of accounting—where expenses are recognized in the same period as the revenues they help to generate. At the end of the lease term, unless specified otherwise, the depreciated value of these improvements usually does not hold value if the improvements revert to the lessor or if the lessee does not continue to hold the lease. Depreciation is typically calculated using the straight-line method, aligning the expense recognition with the usage of the asset. Other options outline incorrect treatments for leasehold improvements. Writing them off immediately after the lease ends would not reflect the proper matching of expenses to the revenues generated during the lease term. Capitalizing only if ownership is obtained does not apply because leasehold improvements can still enhance the value of a rented property, irrespective of ownership. Recording these improvements as asset expenses during the lease would not correctly represent them as capitalized assets that depreciate over time, misrepresenting financial statements by understating asset values

5. Which of the following describes an estimate of the effect of a change in accounting principle?

- A. Significant Estimates**
- B. Material Adjustments
- C. Financial Disclosures
- D. Operational Impact

The correct answer refers to significant estimates as they pertain to the assessment and quantification of the impact caused by a change in an accounting principle. When an accounting principle changes, it often affects financial statement items, and organizations must estimate how these changes will affect their financial position and results. These estimates are critical for providing transparency to stakeholders about the financial implications of such changes. Significant estimates encompass adjustments made to the reported numbers to reflect the differing assumptions or methodologies introduced by the new accounting principle. These estimates are essential for presenting an accurate picture of the company's financial health under the revised accounting framework. While material adjustments refer to changes that could impact the users' understanding of financial statements, they do not encompass the comprehensive estimation process involved in evaluating the effect of a change in accounting principle. Financial disclosures relate to the information shared with stakeholders but do not specifically address the estimation process itself. Operational impact focuses on the practical implications for day-to-day operations rather than the accounting aspects. Thus, in this context, significant estimates are crucial for understanding the ramifications of any shifts in accounting principles.

6. How should a company's income tax provision for the second quarter be determined?

- A. Statutory tax rate for the year
- B. Effective tax rate expected applicable for the second quarter
- C. Effective tax rate expected for the full year estimated at the end of the first quarter
- D. Effective tax rate expected for the full year estimated at the end of the second quarter**

Determining a company's income tax provision for any given quarter involves using the most relevant and current estimates of the tax landscape that the company anticipates for the entire year. The effective tax rate expected for the full year provides a comprehensive view, incorporating various factors that may not be apparent in just one quarter. By estimating this effective tax rate at the end of the second quarter, the company can reflect any revised expectations about its taxable income, changes in tax laws, or shifts in its business operations that could influence the overall effective tax rate. This allows the company to provide a more accurate and realistic income tax provision that aligns with its anticipated financial results for the year. Additionally, using the most up-to-date information ensures that the estimates reflect the company's current situation, which is vital for accurate financial reporting and tax compliance. This approach supports the matching principle in accounting as it helps align taxes with the actual income generated during the accounting periods.

7. GAAP income tax expense is defined as what?

- A. The sum of deferred income tax assets only
- B. The total of current income tax expense and deferred income tax expense**
- C. The average tax rate applied to net income
- D. The payment made to the IRS during the year

GAAP income tax expense is defined as the total of current income tax expense and deferred income tax expense. This definition captures the full spectrum of tax obligations that a company incurs during a fiscal period. Current income tax expense refers to the taxes a company expects to pay based on its taxable income for the current period, while deferred income tax expense represents the taxes that are anticipated to be paid in future periods due to temporary differences between accounting income and taxable income. These temporary differences can arise from various sources, including differing methods of reporting revenues and expenses for financial and tax reporting purposes. By combining both current and deferred income tax expenses, the resulting figure reflects the comprehensive tax expense recognized in the financial statements under generally accepted accounting principles (GAAP). This approach ensures that financial statements accurately represent the impact of taxation on a company's financial performance, providing stakeholders with a clearer understanding of the overall tax liabilities associated with the company's earnings. The other options do not encompass the complete picture of tax expenses as recognized under GAAP, as they either focus on only one aspect of tax liabilities or misrepresent how the tax expense is calculated.

8. How should costs for premiums offered to customers be recognized in accounting?

- A. As liabilities only
- B. Expensed and recognized as liabilities**
- C. Deferred until customer redeems
- D. As revenue only

The recognition of costs for premiums offered to customers involves understanding how to account for these costs as they relate to both expenses and liabilities. When a company offers premiums, they essentially promise a benefit to the customer, which creates a liability since the company has an obligation to provide that benefit if the customer chooses to redeem it. Initially, the cost of the premium is treated as a liability because the company expects that some customers will redeem their premiums. This liability reflects the company's obligation to fulfill its promise. However, the costs associated with the premiums are also recognized as expenses because they directly relate to the sales of products or services when the premiums are offered. Therefore, both recognition as liabilities and expensing are necessary to accurately reflect the impact of the premiums on the company's financial statements. This dual recognition approach ensures that expenses align with the period in which the related revenues are earned, complying with the matching principle in accounting. The other options do not fully capture the required accounting treatment; for example, recognizing the costs solely as liabilities or only as revenue would overlook the necessary expense recognition connected with the sale that leads to the premium offer. Additionally, deferring costs until redemption would not appropriately reflect the associated expenses in the correct accounting period.

9. A company factors its receivables without recourse. What does this imply?

- A. The company retains all credit risk
- B. The company transfers all credit risk to the factor**
- C. The company is liable for uncollectible accounts
- D. The company must buy back uncollectible accounts

When a company factors its receivables without recourse, it means that the risk of uncollectible accounts is fully transferred to the factor, which is the financial institution or entity purchasing the receivables. This arrangement implies that once the receivables are sold to the factor, the company does not retain any liability for the collection of those accounts. In a without-recourse factoring agreement, if the customer fails to pay the receivable, the factor absorbs the loss and cannot seek reimbursement from the original company. Thus, the company is free from any credit risk associated with those receivables after the transaction. This differs significantly from factoring with recourse, where the company would still hold some responsibility for the uncollectibility of the accounts it sold. The other options do not align with the nature of a without-recourse arrangement, as it explicitly indicates a transfer of risk rather than retaining it.

10. What happens to the G/L adjustment when using the remeasurement method for financial currency accounting?

- A. It goes to Other Comprehensive Income
- B. It rolls forward to Retained Earnings
- C. It is reported on the Balance Sheet
- D. It affects net income**

When using the remeasurement method for accounting in foreign currencies, the gains and losses from the adjustments are reflected in the income statement, thus directly affecting net income. Remeasurement typically occurs when the foreign entity's functional currency is not the currency of the reporting entity. In this context, monetary assets and liabilities are converted at the current exchange rate, while non-monetary items are converted at historical rates. The resulting differences between these exchange rates lead to gains and losses, which are recognized in the period they occur. This treatment emphasizes the importance of foreign currency fluctuations on the results of operations, which is why the impact is reflected in net income for that reporting period. The gains or losses do not flow through other comprehensive income or directly into retained earnings; instead, they are recorded as part of the operating results, which ultimately contributes to the calculation of net income.

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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