



# AICPA

## CPA-Financial Exam

CPA Financial Accounting and Reporting

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### Question 1. (Single Select)

According to the FASB conceptual framework, which of the following attributes would not be used to measure inventory?

- A: Replacement cost.
- B: Historical cost.
- C: Net realizable value.
- D: Present value of future cash flows.

**Correct Answer: D**

#### **Explanation:**

Choice "d" is correct. The present value of future cash flows is used to measure long-term receivables or payables, not inventory, because inventory is a short-term asset, which has more immediate cash flows. SFAC 5 para. 67

Choice "a" is incorrect. Historical cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

Choice "b" is incorrect. Replacement (or current) cost can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

Choice "c" is incorrect. Net realizable value can be used to measure inventory because it is a relevant and reliable measurement attribute of current assets such as inventory.

### Question 2. (Single Select)

What is the underlying concept that supports the immediate recognition of a contingent loss?

- A: Substance over form.
- B: Consistency.
- C: Matching.
- D: Conservatism.

**Correct Answer: D**

**Explanation:**

Choice "d" is correct. Conservatism is a prudent reaction to uncertainty to try to ensure that uncertainty and risks inherent in business situations are adequately considered. Recognition of a contingent loss is the recording of an amount representing uncertainty and risk in a business situation. SFAC 2, SFAS 5 para. 82

Choice "a" is incorrect. The substance over form concept presumes that the transaction form may not dictate the accounting treatment.

Choice "b" is incorrect. Consistency is conformity from period to period with unchanging policies and procedures. SFAC 2

Choice "c" is incorrect. The matching principle dictates that expenses be matched with the related revenues generated or the time period in which the expense is incurred and known. SFAS #5 cites matching as the one concept supporting the immediate recognition of a contingent loss, but it is not the primary underlying concept. SFAS 5 para. 76

**Question 3. (Single Select)**

According to the FASB conceptual framework, the process of reporting an item in the financial statements of an entity is:

- A: Allocation.
- B: Matching.
- C: Realization.
- D: Recognition.

**Correct Answer: D****Explanation:**

Choice "d" is correct. Recognition is the process of recording an item in the financial statements of an entity. SFAC 5 para. 6

Choice "a" is incorrect. Allocation is the accounting process of assigning or distributing an amount according to a plan or a formula. SFAC 6 para. 142

Choice "b" is incorrect. Matching of costs and revenues is simultaneous or combined recognition of the revenues and expenses that result directly and jointly from the same transactions or other events. SFAC 6 para. 146

Choice "c" is incorrect. Realization is the process of converting noncash resources and rights

into money. SFAC 6 para. 143

#### Question 4. (Single Select)

What are the Statements of Financial Accounting Concepts intended to establish?

- A: Generally accepted accounting principles in financial reporting by business enterprises.
- B: The meaning of "Present fairly in accordance with generally accepted accounting principles."
- C: The objectives and concepts for use in developing standards of financial accounting and reporting.
- D: The hierarchy of sources of generally accepted accounting principles.

**Correct Answer: C**

#### Explanation:

Choice "c" is correct. Statements of Financial Accounting Concepts are intended to establish the objectives and concepts that the Financial Accounting Standards Board will use in developing standards of financial accounting and reporting. SFAC 1 para. 3

Choice "a" is incorrect. The Statements of Financial Accounting Concepts do not specify financial accounting standards prescribing accounting procedures or practices. SFAC 1 para. 3

Choice "b" is incorrect. Auditing standards develop the meaning of "Present fairly in accordance with generally accepted accounting principles."

Choice "d" is incorrect. The hierarchy of sources of generally accepted accounting principles is determined by GAAP.

#### Question 5. (Single Select)

During a period when an enterprise is under the direction of a particular management, its financial statements will directly provide information about:

- A: Management performance but not directly provide information about enterprise performance.

- B: Enterprise performance but not directly provide information about management performance.
- C: Both enterprise performance and management performance.
- D: Neither enterprise performance nor management performance.

**Correct Answer: C**

**Explanation:**

Choice "c" is correct. Financial reporting, and especially financial statements, usually cannot and do not separate management performance from enterprise performance. Financial reporting provides information about an enterprise during a period when it was under the direction of a particular management but does not directly provide information about that management's performance. SFAC 1 para. 53



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