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1. Which of the following is classified as a cash equivalent on the balance sheet?

- A. A 6-month Treasury bill purchased 2 months ago
- B. A money market account with a 90-day lock-up period
- C. A 3-month commercial paper purchased today
- D. A savings account that requires 30 days notice for withdrawal

2. Which of the following is NOT a component of stockholders' equity on a corporate balance sheet?

- A. Retained earnings
- B. Additional paid-in capital
- C. Bonds payable
- D. Accumulated other comprehensive income

3. According to the FASB Conceptual Framework, the primary objective of general-purpose financial reporting is to provide information useful to:

- A. Management in planning and controlling entity operations
- B. Government regulators in assessing compliance with applicable laws
- C. Internal auditors in evaluating the effectiveness of internal controls
- D. Existing and potential investors, lenders, and other creditors in making resource allocation decisions

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4. Which fund type is used by a state government to account for general operations and services not required to be accounted for in another fund?

- A. General Fund
- B. Special Revenue Fund
- C. Capital Projects Fund
- D. Debt Service Fund



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5. Which financial statements are required for a nongovernmental not-for-profit organization under U.S. GAAP (ASC 958)?

- A. Statement of financial position, statement of activities, and statement of cash flows
- B. Balance sheet, income statement, and statement of retained earnings
- C. Statement of net assets, statement of revenues and expenses, and statement of cash flows
- D. Statement of financial position and statement of activities only

6. Under ASC 606, which of the following correctly states Step 1 of the five-step revenue recognition model?

- A. Determine the transaction price
- B. Identify the performance obligations in the contract
- C. Identify the contract with a customer
- D. Allocate the transaction price to performance obligations

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7. On a classified balance sheet, which of the following would be presented as a current liability?

- A. Accounts payable due within 60 days
- B. Bonds payable maturing in 5 years
- C. Deferred tax liability (long-term portion)
- D. Finance lease obligation due in 3 years

8. Which of the following items is EXCLUDED from cash and cash equivalents on the balance sheet?

- A. Demand deposits at commercial banks
- B. Treasury bills purchased three weeks before maturity
- C. Postdated checks received from customers
- D. Money market funds with immediate redemption

9. A company has a bank overdraft of \$5,000 in one bank account and a positive balance of \$12,000 in another account at a different bank. How should the overdraft be reported?

- A. As a current liability, because the accounts are at different banks
- B. Netted against the positive balance, showing \$7,000 cash
- C. As a contra-asset reducing total cash
- D. Disclosed only in the notes to the financial statements



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10. The par value of common stock issued represents which component of stockholders' equity?

- A. Common stock (legal capital)
- B. Additional paid-in capital
- C. Retained earnings
- D. Treasury stock

11. The FASB Conceptual Framework identifies which of the following as a secondary objective supporting the primary reporting objective?

- A. Helping management set internal transfer prices
- B. Assisting the IRS in collecting taxes efficiently
- C. Helping users assess the entity's ability to generate net cash inflows
- D. Providing information to enable collective bargaining negotiations

12. A city government receives a state grant that must be used exclusively for road maintenance. Which fund should be used to account for these resources?

- A. General Fund
- B. Capital Projects Fund
- C. Special Revenue Fund
- D. Permanent Fund

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13. Under ASC 958 (as amended by ASU 2016-14), not-for-profit organizations classify net assets into how many categories?

- A. Three: unrestricted, temporarily restricted, and permanently restricted
- B. Two: net assets without donor restrictions and net assets with donor restrictions
- C. Two: current and noncurrent
- D. Three: operating, capital, and endowment



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14. Under ASC 606, when is revenue recognized?

- A. When cash is received from the customer
- B. When (or as) a performance obligation is satisfied
- C. When a contract is signed by both parties
- D. When the invoice is issued to the customer

15. Under U.S. GAAP, which income statement format separates operating revenues and expenses from non-operating items?

- A. Single-step format
- B. Multi-step format
- C. Contribution margin format
- D. Cash-basis format

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16. A company uses the allowance method to account for bad debts. When a specific account is written off, the journal entry is:

- A. Debit Bad Debt Expense; Credit Accounts Receivable
- B. Debit Accounts Receivable; Credit Allowance for Doubtful Accounts
- C. Debit Allowance for Doubtful Accounts; Credit Accounts Receivable
- D. Debit Allowance for Doubtful Accounts; Credit Bad Debt Expense

17. A company holds a compensating balance of \$50,000 that it is legally restricted from using. The compensating balance relates to a long-term loan. Where should this amount be reported?

- A. As part of cash and cash equivalents
- B. As a non-current asset (other assets) on the balance sheet
- C. Netted against the related long-term debt
- D. Disclosed in notes only, with no balance sheet reclassification

18. A company issues 1,000 shares of \$1 par value common stock for \$15 per share. What amount is credited to Additional Paid-In Capital?

- A. \$1,000
- B. \$14,000
- C. \$15,000
- D. \$16,000



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19. Under the FASB Conceptual Framework, which two qualitative characteristics are the FUNDAMENTAL qualities that make financial information useful?

- A. Timeliness and verifiability
- B. Comparability and consistency
- C. Understandability and materiality
- D. Relevance and faithful representation

20. Which fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest?

- A. Capital Projects Fund
- B. Debt Service Fund
- C. Enterprise Fund
- D. Special Revenue Fund

21. A donor contributes \$50,000 to a nonprofit with the stipulation that the funds be used only for youth education programs. How should this contribution be classified?

- A. Net assets without donor restrictions
- B. Permanently restricted net assets
- C. Net assets with donor restrictions
- D. Deferred revenue

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22. Which of the following correctly lists the five steps of ASC 606 in the proper sequence?

- A. Identify contract → Determine transaction price → Identify performance obligations → Allocate price → Recognize revenue
- B. Identify performance obligations → Identify contract → Determine transaction price → Allocate price → Recognize revenue
- C. Identify contract → Identify performance obligations → Determine transaction price → Allocate price → Recognize revenue
- D. Determine transaction price → Identify contract → Identify performance obligations → Allocate price → Recognize revenue



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23. Under U.S. GAAP, cash paid to acquire a patent is classified in the statement of cash flows as:

- A. Operating activity
- B. Financing activity
- C. Investing activity
- D. Non-cash supplemental disclosure only

24. At year-end, a company has gross accounts receivable of \$500,000 and an allowance for doubtful accounts with a credit balance of \$8,000 before adjustment. An aging analysis indicates the required allowance is \$30,000. What is the bad debt expense for the year?

- A. \$8,000
- B. \$30,000
- C. \$38,000
- D. \$22,000

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25. Under U.S. GAAP, which method of accounting for uncollectible accounts is required for financial reporting purposes?

- A. Direct write-off method
- B. Aging-of-receivables method only
- C. Percentage-of-sales method only
- D. Allowance method (any systematic approach)

26. Greenway Corp. issues 500 shares of \$5 par value stock in exchange for land appraised at \$40,000. The stock is not publicly traded and its fair value is unknown. How should the transaction be recorded?

- A. Debit Land \$2,500; Credit Common Stock \$2,500
- B. Debit Land \$40,000; Credit Common Stock \$40,000
- C. Debit Land \$2,500; Credit Common Stock \$2,500; no APIC entry
- D. Debit Land \$40,000; Credit Common Stock \$2,500; Credit APIC \$37,500



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27. Which component of relevance refers to information that can make a difference in decisions even if a user chooses not to use it?

- A. Predictive value
- B. Confirmatory value
- C. Faithful representation
- D. Materiality

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28. A county government operates a water utility that charges customers for services rendered. Which fund type should be used?

- A. Special Revenue Fund
- B. Internal Service Fund
- C. Agency Fund
- D. Enterprise Fund

29. Under ASC 958-605, an unconditional promise to give (pledge) from a donor is recognized by the nonprofit as:

- A. Revenue only when cash is received
- B. A contingent liability until cash is received
- C. Deferred revenue until the purpose restriction is met
- D. Revenue and a receivable in the period the promise is made

30. ASC 606 replaced which two major prior revenue recognition standards?

- A. ASC 840 and ASC 805
- B. ASC 810 and ASC 830
- C. ASC 605 (Revenue Recognition) and ASC 985-605 (Software)
- D. ASC 350 and ASC 985



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Answer Key & Explanations

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1. C — A 3-month commercial paper purchased today

Cash equivalents are short-term, highly liquid investments with original maturities of three months or less. A 3-month commercial paper purchased today qualifies because its original maturity is 90 days or fewer. The 6-month T-bill was purchased when it had more than 3 months remaining.

2. C — Bonds payable

Bonds payable is a liability, not an equity component. Stockholders' equity consists of paid-in capital (common stock + APIC), retained earnings, treasury stock (as a deduction), and AOCI.

3. D — Existing and potential investors, lenders, and other creditors in making resource allocation decisions

The Conceptual Framework (CON 8) states that the primary objective of general-purpose financial reporting is to provide information useful to existing and potential investors, lenders, and other creditors. Management, regulators, and auditors have other channels for obtaining the information they need.

4. A — General Fund

The General Fund accounts for all financial resources not required to be accounted for in another fund, serving as the primary operating fund of a governmental entity.

5. A — Statement of financial position, statement of activities, and statement of cash flows

ASC 958-205 requires three statements: a statement of financial position, a statement of activities, and a statement of cash flows. Retained earnings is a for-profit concept; not-for-profits have net assets, not retained earnings.

6. C — Identify the contract with a customer

The five steps begin with Step 1: Identify the contract with a customer. Steps 2–5 then address performance obligations, transaction price, allocation, and recognition.

7. A — Accounts payable due within 60 days

Current liabilities are obligations expected to be settled within one year or the operating cycle, whichever is longer. Accounts payable due within 60 days clearly qualifies. The other items mature or are classified beyond one year.

8. C — Postdated checks received from customers

Postdated checks cannot be deposited until the date written on them, so they are not yet cash. They are recorded as receivables until the date arrives. Demand deposits, near-maturity T-bills, and immediately redeemable money market funds all qualify as cash or cash equivalents.

9. A — As a current liability, because the accounts are at different banks

Bank overdrafts are generally reported as current liabilities. Overdrafts at one bank may only be offset against positive balances at the SAME bank, not at different institutions. Since these are different banks, the overdraft must appear as a liability.



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**10. A — Common stock (legal capital)**

The par value of shares issued is recorded in the Common Stock account, which represents the legal capital. Any amount received above par is recorded as Additional Paid-In Capital.

11. C — Helping users assess the entity's ability to generate net cash inflows

A secondary objective of financial reporting is to help users assess the amounts, timing, and uncertainty of prospective cash inflows to the entity, because investors and creditors are ultimately interested in their own future cash receipts.

12. C — Special Revenue Fund

Special Revenue Funds account for proceeds of specific revenue sources that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects.

13. B — Two: net assets without donor restrictions and net assets with donor restrictions

ASU 2016-14 (effective for fiscal years beginning after December 15, 2017) collapsed the prior three classes into two: net assets without donor restrictions and net assets with donor restrictions. The old three-class model is no longer GAAP.

14. B — When (or as) a performance obligation is satisfied

ASC 606 Step 5 requires revenue to be recognized when (or as) a performance obligation is satisfied, i.e., when control of the promised good or service transfers to the customer.

15. B — Multi-step format

The multi-step income statement explicitly separates operating revenues and expenses (yielding operating income) from non-operating items such as interest expense and gains/losses. The single-step format groups all revenues together and all expenses together.

16. C — Debit Allowance for Doubtful Accounts; Credit Accounts Receivable

Under the allowance method, writing off a specific account reduces both the allowance and the gross receivable, leaving net receivable unchanged. The write-off does not affect bad debt expense, which was recognized when the allowance was established.

17. B — As a non-current asset (other assets) on the balance sheet

Legally restricted compensating balances related to long-term borrowing arrangements should be classified as non-current assets (often under 'Other Assets'), not as cash. They cannot be used freely, so they do not meet the definition of cash or cash equivalents.

18. B — \$14,000

APIC = (Issue price – Par value) × Shares = $(\$15 - \$1) \times 1,000 = \$14,000$. The par value of \$1,000 goes to Common Stock.

19. D — Relevance and faithful representation

CON 8 identifies relevance and faithful representation as the two fundamental qualitative characteristics. The other characteristics—comparability, verifiability, timeliness, and understandability—are enhancing qualities that improve usefulness but do not by themselves make information useful.

20. B — Debt Service Fund

Debt Service Funds account for financial resources that are restricted, committed, or assigned to expenditure for principal and interest on long-term debt.



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21. C — Net assets with donor restrictions

A donor-imposed restriction (purpose restriction) requires classification as net assets with donor restrictions. The funds become unrestricted only when the restriction is met (funds spent on youth education). Deferred revenue is not used for unconditional contributions.

22. C — Identify contract → Identify performance obligations → Determine transaction price → Allocate price → Recognize revenue

The correct ASC 606 sequence is: (1) Identify the contract, (2) Identify the performance obligations, (3) Determine the transaction price, (4) Allocate the transaction price, (5) Recognize revenue when/as each performance obligation is satisfied.

23. C — Investing activity

Acquiring a patent is a long-term investment in an intangible asset; cash paid for it is therefore an investing outflow. Operating activities relate to day-to-day operations, and financing activities relate to debt and equity transactions.

24. D — \$22,000

The allowance needs to reach \$30,000, but it already has an \$8,000 credit balance. The additional bad debt expense required is $\$30,000 - \$8,000 = \$22,000$. If the existing balance were a debit, the expense would be added to it.

25. D — Allowance method (any systematic approach)

U.S. GAAP requires the allowance method for financial reporting because it matches bad debt expense to the period of the related sale. The direct write-off method is only acceptable for tax purposes. Both the aging and percentage-of-sales approaches are acceptable allowance-method implementations.

26. D — Debit Land \$40,000; Credit Common Stock \$2,500; Credit APIC \$37,500

When stock is issued for non-cash consideration, the transaction is recorded at the fair value of the asset received (\$40,000). Par value ($\$5 \times 500 = \$2,500$) is credited to Common Stock, and the remainder (\$37,500) to APIC.

27. D — Materiality

Materiality is an entity-specific aspect of relevance. Information is material if omitting or misstating it could influence decisions made by users of the financial statements of that specific entity.

28. D — Enterprise Fund

Enterprise Funds account for activities where a fee is charged to external users for goods or services, similar to private-sector businesses, such as utilities, airports, and transit systems.

29. D — Revenue and a receivable in the period the promise is made

Unconditional promises to give are recognized as contribution revenue and a contribution receivable when the promise is received, discounted to present value if due in future periods. Receipt of cash is not required for recognition.

30. C — ASC 605 (Revenue Recognition) and ASC 985-605 (Software)

ASC 606 superseded ASC 605 (the general revenue recognition standard) and ASC 985-605 (software revenue recognition), along with many industry-specific standards, replacing them with a single comprehensive model.



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