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38	A	B	C	D	E
39	A	B	C	D	E

PRACTICE QUESTIONS

CPA

FARGU

Financial Accounting and Reporting (Guam Only)

EDITION

Demo

QUESTIONS

9

FORMAT

Limited Edition PDF

Before you begin

What this is

9 practice questions for CPA **FARGU**, each with its answer key and an explanation. Answer a question before you read its key — the explanation is worth more once you have committed.

If something looks wrong

Send us three things and we will check it:

- the exam code, **FARGU**
- the question number
- the email address on your order

Write to **support@mometrix.net**. We reply within one business day.

QUESTION 1

SINGLE CHOICE

Under the FASB Conceptual Framework, which of the following is NOT a required characteristic of an element (asset, liability, or equity)?

- ☐ A Relevant representationally faithful information
- ☐ B Probable future economic benefit
- ☐ C Result of a past transaction or event
- ☒ D Measurability in monetary terms

ANSWER D

WHY The FASB Conceptual Framework identifies relevance and faithful representation as the fundamental qualitative characteristics of useful financial reporting information. Measurability in monetary terms is a practical recognition threshold rather than a defining characteristic of an element. Probable future economic benefit and being the result of a past transaction or event are core definitional attributes of assets and liabilities.

QUESTION 2

SINGLE CHOICE

Under ASC 326 (CECL), a company that extends trade credit to customers must measure expected credit losses on accounts receivable using which approach?

- ☐ A An incurred-loss model triggered only when a loss event is probable
- ☒ B A current expected credit loss (CECL) model based on reasonable and supportable forecasts
- ☐ C The higher of fair value or amortized cost
- ☐ D A cash-basis model that recognizes losses only when accounts are written off

ANSWER B

WHY ASC 326 replaced the incurred-loss model with the Current Expected Credit Loss (CECL) model for financial instruments measured at amortized cost, including trade accounts receivable. Under CECL, the allowance reflects expected credit losses over the life of the receivable, considering historical experience, current conditions, and reasonable and supportable forecasts.

QUESTION 3

SINGLE CHOICE

A company using FIFO or weighted-average costing must write inventory down to net realizable value when NRV is below cost. Under U.S. GAAP, can a new higher inventory value be restored in a subsequent period?

- ☒ **A** Yes, but only up to the original cost
- ☐ **B** Yes, with no upper limit
- ☐ **C** No, subsequent recoveries are prohibited
- ☐ **D** Yes, but only if a new firm sales contract exists

ANSWER A

WHY Under U.S. GAAP (ASC 330), a write-down of inventory to NRV creates a new cost basis. If NRV recovers in a later period, the inventory value can be increased, but only up to the original cost. This contrasts with the IFRS rule (IAS 2), which requires identical reversal treatment but is sometimes stated more broadly. The key U.S. GAAP cap is the original cost.

QUESTION 4

SINGLE CHOICE

Which depreciation method allocates an asset's cost based on the proportion of expected total units of output produced in the period to the asset's total expected output?

- ☐ **A** Straight-line method
- ☐ **B** Sum-of-the-years'-digits method
- ☐ **C** Double-declining-balance method
- ☒ **D** Units-of-production method

ANSWER D

WHY The units-of-production (units-of-activity) method computes depreciation by multiplying (units produced in the period / total expected units of output) × (cost – residual value). Straight-line spreads cost evenly over time; SYD and DDB are accelerated time-based methods.

QUESTION 5 SINGLE CHOICE

Under ASC 842, a lessee's right-of-use asset is initially measured at which of the following?

- ☐ A The present value of lease payments only
- ☐ B Fair value of the underlying asset
- ☒ C The initial lease liability plus initial direct costs and prepaid lease payments, less any lease incentives received
- ☐ D The fair value of the lease liability

ANSWER C

WHY Under ASC 842, the lessee initially measures the right-of-use (ROU) asset at the amount of the initial lease liability, plus any initial direct costs incurred by the lessee, plus any prepaid lease payments to the lessor, less any lease incentives received from the lessor. Option A describes only the lease liability measurement, not the ROU asset.

QUESTION 6 SINGLE CHOICE

Under ASC 606, which of the following is Step 2 of the revenue recognition framework?

- ☐ A Identify the contract(s) with the customer
- ☒ B Identify the performance obligations in the contract
- ☐ C Determine the transaction price
- ☐ D Allocate the transaction price to the performance obligations

ANSWER B

WHY The ASC 606 five-step model is: (1) Identify the contract with the customer, (2) Identify the performance obligations in the contract, (3) Determine the transaction price, (4) Allocate the transaction price to the performance obligations, and (5) Recognize revenue when (or as) each performance obligation is satisfied.

QUESTION 7

SINGLE CHOICE

A temporary difference arises when the tax basis of an asset or liability differs from its book basis. Under U.S. GAAP, a deferred tax liability is generally recognized for which type of temporary difference?

- ☐ A A deductible temporary difference
- ☒ B A taxable temporary difference
- ☐ C A permanent difference
- ☐ D An operating loss carryforward

ANSWER B

WHY Taxable temporary differences (e.g., accelerated tax depreciation vs. straight-line book depreciation) result in taxable amounts in future years when the asset is recovered or the liability is settled, giving rise to deferred tax liabilities. Deductible temporary differences and loss carryforwards give rise to deferred tax assets (subject to realization via a valuation allowance). Permanent differences never produce deferred tax amounts.

QUESTION 8

SINGLE CHOICE

Cash received from the sale of a piece of manufacturing equipment that was used in operations for three years should be classified in the statement of cash flows as which of the following?

- ☐ A An operating activity
- ☒ B An investing activity
- ☐ C A financing activity
- ☐ D A noncash investing and financing activity

ANSWER B

WHY Cash flows from the purchase and sale of long-term productive assets (PP&E) and certain other investments are classified as investing activities in the statement of cash flows. Proceeds from issuing or repaying debt and equity are financing activities; day-to-day operating receipts and payments are operating activities.

QUESTION 9

MULTIPLE CHOICE

Which of the following items are components of a corporation's stockholders' equity? (Choose two.)

- ☒ **A** Common stock and preferred stock at par or stated value
- ☐ **B** Additional paid-in capital
- ☐ **C** Accounts payable
- ☒ **D** Retained earnings

ANSWER **A - D**

WHY Stockholders' equity typically includes capital stock (common and preferred at par/stated value), additional paid-in capital, retained earnings, accumulated other comprehensive income, and treasury stock. Accounts payable is a liability, not equity. (Note: Additional paid-in capital is also part of stockholders' equity, but only two answers are required.)