

Here are **10 practice MCQs for US CPA – FAR (Financial Accounting & Reporting)** with answers and explanations 

Question 1

Which of the following is **not** an element of financial statements according to FASB's conceptual framework?

- a. Assets
- b. Liabilities
- c. Revenues
- d. Reserves

 **Answer:** d. Reserves

 **Explanation:** “Reserves” are not an element defined by FASB; U.S. GAAP uses terms like “retained earnings” or “allowance,” not “reserves.”

Question 2

Which of the following statements best describes the **matching principle**?

- a. Revenue is recognized when earned and expenses when paid.
- b. Expenses are recognized in the same period as the revenues they help generate.
- c. Expenses are recognized when cash is disbursed.
- d. Revenues are matched with cash receipts.

 **Answer:** b. Expenses are recognized in the same period as the revenues they help generate.

 **Explanation:** This ensures the proper association between cost and benefit in accrual accounting.

Question 3

A company purchased equipment for \$100,000 on January 1. It has a useful life of 5 years and a residual value of \$10,000. Using **straight-line depreciation**, what is annual depreciation expense?

- a. \$18,000
- b. \$20,000
- c. \$22,000
- d. \$25,000

 **Answer:** b. \$18,000

 **Explanation:** Depreciable amount = $100,000 - 10,000 = 90,000 \rightarrow \text{Annual} = 90,000 / 5 = 18,000$

Question 4

Under U.S. GAAP, **goodwill** is:

- a. Amortized over 10 years.
- b. Tested annually for impairment.
- c. Capitalized and amortized.
- d. Expensed immediately.

 **Answer:** b. Tested annually for impairment.

 **Explanation:** Goodwill is not amortized but is subject to an **annual impairment test**.

Question 5

Which of the following transactions **increases** total assets?

- a. Purchase of equipment for cash
- b. Collection of accounts receivable
- c. Issuance of common stock for cash
- d. Payment of accounts payable

 **Answer:** c. Issuance of common stock for cash

 **Explanation:** Cash increases (asset) and equity increases; total assets rise.

Question 6

Which inventory cost method results in the **highest ending inventory** during periods of rising prices?

- a. FIFO
- b. LIFO
- c. Weighted average
- d. Specific identification

 **Answer:** a. FIFO

 **Explanation:** FIFO uses older, lower costs in COGS, leaving newer, higher-cost items in ending inventory.

Question 7

A company issues \$1,000,000 of 10% bonds at 98. The journal entry to record the issuance includes:

- a. Credit Bonds Payable \$980,000
- b. Credit Bonds Payable \$1,000,000 and Debit Discount \$20,000
- c. Debit Cash \$1,000,000
- d. Credit Premium on Bonds Payable \$20,000

 **Answer:** b. Credit Bonds Payable \$1,000,000 and Debit Discount \$20,000

 **Explanation:** Bonds issued at discount → Cash 980,000; Discount 20,000; Bonds Payable 1,000,000.

Question 8

Which of the following is **not** classified as Other Comprehensive Income (OCI)?

- a. Unrealized gains on available-for-sale securities
- b. Foreign currency translation adjustments
- c. Pension plan gains/losses
- d. Dividend income from investments

 **Answer:** d. Dividend income from investments

 **Explanation:** Dividend income is part of **net income**, not OCI.

Question 9

When a company changes its **depreciation method**, it is accounted for as:

- a. A change in accounting principle
- b. A change in accounting estimate
- c. An error correction
- d. A prior period adjustment

 **Answer:** b. A change in accounting estimate

 **Explanation:** Change in depreciation method = change in estimate **affected by principle, applied prospectively**.

Question 10

Which of the following is **true** regarding leases under ASC 842?

- a. Operating leases are not recorded on the balance sheet.
- b. Both finance and operating leases recognize a right-of-use asset and lease liability.
- c. Only finance leases recognize a right-of-use asset.
- d. Lease liabilities are recorded only when ownership transfers.

 **Answer:** b. Both finance and operating leases recognize a right-of-use asset and lease liability.

 **Explanation:** Under ASC 842, **all leases (over 12 months)** are capitalized on the balance sheet.
