CFAS Reviewer with Answer Key

Accountancy (University of the East (Philippines))



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Conceptual Framework & Accounting Standards Reviewer

1. The Accounting Standards Council (ASC) defines accounting as
   a. Accounting is a service activity that provides quantitative information, primarily financial in nature.
   b. Accounting is the art of recording, classifying, and summarizing.
   c. Accounting is the process of identifying, measuring, and communicating economic information.
   d. All of the above

2. What is the law regulating the practice of accountancy in the Philippines?
   a. R.A. No. 9298
   b. R.A. No. 9198
   c. R.A. No. 9928
   d. R.A. No. 9892

3. I. The FRSC is composed of 15 members and a chairperson.
   II. The Philippine BOA has 6 members and a chairperson.
   a. Only statement I is true.
   b. Only statement II is true.
   c. Both statements I and II are true.
   d. Both statements I and II are false.

4. Certified Public Accountants (CPAs) are licensed by
   a. PICPA
   b. The Securities and Exchange Commission
   c. The Financial Executives Institute of the Philippines
   d. The state government

5. Certified Public Accountants (CPAs) must comply with how many CPD credit units to practice the accountancy profession?
   a. 125 CPD credit units
   b. 130 CPD credit units
   c. 120 CPD credit units
   d. 15 CPD credit units

6. A public accountant can render
   a. Auditing services
   b. Taxation services
   c. Management advisory services
   d. All of the above

7. What is the chronological order in the evaluation of a typical standard?
   a. Exposure draft, Standard, and Discussion paper
   b. Exposure draft, Discussion paper, and Standard
   c. Standard, Discussion paper, and Exposure draft
   d. Discussion paper, exposure draft, and Standard

8. Financial accounting is concerned with
   a. General purpose reports on financial position and financial performance
   b. Special reports for inventory management.
   c. Special reports for income tax computation
   d. General purpose reports on changes in share prices

9. Financial accounting emphasizes reporting to
   a. Management
   b. Creditors and investors
   c. Regulatory bodies
   d. All of the above

10. I. Generally Accepted Accounting Principles (GAAP) derive their credibility and authority from an authoritative accounting rule-making body.
    II. Generally Accepted Accounting Principles (GAAP) derive their credibility and authority from recognition and acceptance by the accountancy profession.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

11. The primary responsibility for properly applying GAAP lies with the
    a. External auditor
    b. Internal auditor
    c. Management
    d. National accounting organization

12. Which statement is not true about the Conceptual Framework for Financial Reporting?
    a. The Conceptual Framework is an IFRS.
    b. The Conceptual Framework describes the concepts for general purpose financial reporting.
    c. In case of conflict, the requirements of the IFRS prevail over the Conceptual Framework.

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d. Nothing in the Conceptual Framework overrides any specific IFRS.

13. I. The Conceptual Framework should be a basis for standard setting.
    II. The Conceptual Framework should be based on fundamental truth derived from law.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

14. The Conceptual Framework is intended to establish
    a. GAAP in financial reporting
    b. The meaning of "present fairly in accordance with GAAP"
    c. The objectives and concepts for use in developing standards of financial accounting and reporting
    d. The hierarchy of sources of GAAP

15. An objective of financial reporting is to provide
    a. Information about the investors in the entity
    b. Information useful in assessing cash flow prospects
    c. Information about the liquidation value
    d. Information that will attract new investors

16. The fundamental qualitative characteristics are
    a. Relevance, faithful representation, and materiality
    b. Relevance and faithful representation
    c. Relevance and reliability
    d. Faithful representation and materiality

17. The enhancing qualitative characteristics of financial information are
    a. Comparability and understandability
    b. Verifiability and timeliness
    c. Comparability, understandability, and verifiability
    d. Comparability, understandability, verifiability, and timeliness

18. I. The Conceptual Framework provides a uniform quantitative threshold for materiality.
    II. Information is immaterial if omitting, misstating, or obscuring it could reasonably influence economic decisions.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

19. Accounting for the interest in a noninterest-bearing note receivable is an example of what aspect of accounting theory?
    a. Matching
    b. Form over substance
    c. Substance over form
    d. None of the above

20. The elements directly related to the measurement of financial position are
    a. Asset, liability, and equity
    b. Asset and liability
    c. Income and expense
    d. Asset, liability, equity, income, and expense

21. The elements of financial position describe amounts of resources and claims against resources
    a. During a period of time
    b. At a moment in time
    c. During a period of time and at a moment in time
    d. Neither during a period of time nor at a moment in time

22. The elements directly related to the measurement of financial performance are
    a. Income and expense
    b. Asset, liability, and equity
    c. Asset and liability
    d. Income, expense, and equity

23. Rights that have the potential to produce economic benefits and correspond to an obligation of another entity include all, except
    a. Right to receive cash
    b. Right to receive goods
    c. Right to exchange economic resource with another entity on favorable terms
    d. Right over property, plant, and equipment

24. Obligations to transfer an economic resource include all, except
    a. Obligation to pay cash
    b. Obligation to deliver goods
    c. Obligation to provide services
    d. Obligation to transfer an economic resource even if a specified future event does not occur

25. Revenue may result from
    a. A decrease in an asset from primary operations

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b. An increase in an asset from incidental operations
c. An increase in a liability from incidental transactions
d. A decrease in a liability from primary operations

26. A decrease in an asset arising from peripheral or incidental transaction is called
    a. Cost
    b. Expense
    c. Loss
    d. Capital expenditure

27. What is the primary distinction between revenue and gain?
    a. The materiality of the amount
    b. The likelihood that the transaction will recur
    c. The nature of the activity that gives rise to the transaction
    d. The method of disclosing the transaction

28. An outflow of asset based on an activity that represents the major operations is called
    a. Loss
    b. Liability
    c. Capital
    d. Expense

29. I. An entity shall classify an asset as current when it is an unrestricted cash and cash equivalent.
    II. An entity shall classify an asset as current when it is not part of the entity's normal operating cycle
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

30. I. An entity shall classify a liability as current when it is due to be settled for more than twelve months after the reporting period.
    II. An entity shall classify a liability as current when it is primarily held for the purpose of trading.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

31. Which of the following is the correct presentation of line items under current assets?
    a. Cash and cash equivalents, Prepaid expenses, Trade and other receivables, Financial assets at FVPL
    b. Financial assets at FVPL, Cash and cash equivalents, Prepaid expenses, Trade and other receivables
    c. Cash and cash equivalents, Trade and other receivables, Prepaid expenses, Financial assets at FVPL
    d. Cash and cash equivalents, Financial assets at FVPL, Trade and other receivables, Prepaid expenses

32. The following are examples of current liabilities, except
    a. Trade and other payables
    b. Current provisions
    c. Short-term borrowing
    d. Deferred tax liability

33. A presentation of assets and liabilities in increasing or decreasing order of liquidity provides information that is reliable and more relevant than a current and noncurrent presentation for
    a. Financial institution
    b. Public utility
    c. Manufacturing entity
    d. Service provider

34. The statement of financial position is useful for analyzing all of the following, except
    a. Financial flexibility
    b. Profitability
    c. Solvency
    d. Liquidity

35. I. PAS 1 prescribes the presentation of income statement by function of expense.
    II. PAS 1 prescribes the presentation of income statement by nature of expense.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

36. Investors and creditors use income statement information for each of the following, except
    a. To evaluate the future performance of an entity
    b. To provide a basis for predicting future performance

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c. To help assess the risk and uncertainty of achieving future cash flows
d. To evaluate the past performance of an entity

37. The income statement would help in which of the following?
a. Assess capital structure
b. Determine financial position
c. Estimate future cash flows
d. Estimate need for additional financing

38. Which is not a component of other comprehensive income?
a. Unrealized gain on trading securities
b. Unrealized gain on available-for-sale securities
c. Foreign currency translation adjustment
d. Remeasurement of defined benefit plan

39. I. The indirect method shows in detail or itemizes the major classes of gross cash receipts and payments.
II. The direct method is the "cash basis" income statement.
a. Only statement I is true.
b. Only statement II is true.
c. Both statements I and II are true.
d. Both statements I and II are false.

40. Under IFRS, an entity can report finance costs in the statement of cash flows
a. In operating activities
b. Either in operating activities or financing activities
c. In financing activities
d. In investing activities or financing activities

41. In a statement of cash flows using indirect method, a decrease in prepaid expense is
a. Reported as an outflow and inflow of cash
b. Reported as an outflow of cash
c. Deducted from net income
d. Added to net income

42. What is the treatment of a three-month treasury bill?
a. Not reported
b. An outflow for financing activities
c. An outflow for lending activities
d. An outflow for investing activities

43. The primary purpose of a statement of cash flows is to provide relevant information about
a. Differences between net income and associated cash receipts and disbursements
b. The cash receipts and cash disbursements of an entity during a period
c. An entity's ability to generate positive net cash flows
d. An entity's ability to meet cash operating needs

44. What is the purpose of information presented in the notes to financial statements?
a. To provide disclosures required by GAAP
b. To correct improper presentation in the statements
c. To provide recognition of amounts not included in the financial statements
d. To present management response to auditor comments

45. Investments are measured at FVPL if they are
a. Held for trading securities
b. Quoted equity instruments
c. Irrevocably designated at FVPL
d. All of the above

46. Accounting for redeemable preference shares as a debt security instead of an equity security is an application of what accounting theory?
a. Materiality
b. Prudence
c. Substance over form
d. Residual equity theory

47. Under PFRS 9, debt investments measured at amortized cost or FVOCI are amortized using the
a. Straight line method
b. Bonds outstanding method
c. Effective interest method
d. None of the above

48. I. The interest income of debt investments at FVPL is computed by multiplying the face amount by the nominal interest rate.
II. Debt investments at FVPL are not amortized using the effective interest method.
a. Only statement I is true.
b. Only statement II is true.
c. Both statements I and II are true.
d. Both statements I and II are false.

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49. Reclassifications of investments between categories are accounted for
    a. Prospectively, at the end of the period after the change in the business model
    b. Prospectively, at the beginning of the period after the change in the business model
    c. Retrospectively, at the end of the period after the change in the business model
    d. Retrospectively, at the beginning of the period after the change in the business model

50. What financial assets are assessed for impairment?
    a. Equity investments at FVPL
    b. Equity investments at FVOCI
    c. Debt investments at FVPL
    d. None of the above

51. I. Credit risk includes the possibility that an entity cannot collect on its receivables.
    II. Liquidity risk includes the possibility that an entity cannot pay its payables.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

52. It is the risk that a financial instrument's fair value or future cash flows will fluctuate because of changes in market prices.
    a. Market risk
    b. Credit risk
    c. Liquidity risk
    d. All of the above

53. Financial liabilities, except financial liabilities at FVPL, are initially measured at
    a. Fair value minus transaction costs
    b. Fair value plus transaction costs
    c. Fair value
    d. Face value

54. It is an entity over which the investor has significant influence
    a. Associate
    b. Investee
    c. Venture capital organization
    d. Mutual fund

55. The equity method is not required when the associate has been acquired and held with a view to disposal within what time period?
    a. Six months from the end of reporting period
    b. Twelve months from the end of reporting period
    c. Twelve months from date of classification as held for sale
    d. In the near future

56. Goodwill arising from an investment in associate is
    a. Included in the carrying amount of the investment and amortized over the useful life
    b. Included in the carrying amount of the investment and not amortized
    c. Charged to retained earnings
    d. Charged to expense immediately

57. What is the accounting treatment when the financial statements of an associate are not prepared as of the same date as the financial statements of the investor?
    a. The associate shall prepare financial statements at the same date as that of the investor.
    b. The financial statements of the associate prepared up to a different date would be used.
    c. Any major transactions during the time gap of the financial statements shall be accounted for.
    d. As long as the gap is not greater than three months, there is no problem.

58. I. Dividend income arising from equity investments at fair value is a return of investment.
    II. Dividend income arising from investment in associate is a return on investment.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

59. An investment property is held for
    a. Administrative purposes
    b. Long-term capital appreciation
    c. Earning rentals
    d. Both b and c

60. What is the initial measurement of an investment property?
    a. Fair value
    b. Fair value less cost of disposal
    c. Cost
    d. None of the above

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61. I. A building that is held by an entity under a finance lease and leased out under one or more operating leases is an example of an investment property.
II. A building occupied by employees who pay rent is an example of an investment property.
a. Only statement I is true.
b. Only statement II is true.
c. Both statements I and II are true.
d. Both statements I and II are false.

62. I. If the ancillary services are insignificant, the property is classified as owner-occupied property.
II. If the ancillary services are insignificant, the property is classified as an investment property.
a. Only statement I is true.
b. Only statement II is true.
c. Both statements I and II are true.
d. Both statements I and II are false.

63. Under PAS 40, an investment property shall be subsequently measured at
a. Cost Model
b. Fair Value Model
c. Revaluation Model
d. Either a or b

64. Property, plant, and equipment are initially measured at
a. Purchase Price
b. Purchase Price plus directly attributable costs
c. Carrying Value
d. Either, a, b, or c

65. I. Minor spare parts and servicing equipment are usually carried as inventory.
II. Major spare parts and standby equipment are recognized as PPE.
a. Only statement I is true.
b. Only statement II is true.
c. Both statements I and II are true.
d. Both statements I and II are false.

66. In an exchange with commercial substance
a. Gain or loss is recognized entirely.
b. Gain or loss is not recognized.
c. Only gain should be recognized.
d. Only loss should be recognized.

67. A plant asset purchased under a deferred payment contract at P10,000 per year for five years is measured at
a. P50,000
b. P50,000 plus imputed interest
c. PV of P10,000 annuity for five years at an imputed interest
d. Future value of a P10,000 annuity for five years

68. An asset purchased under a deferred payment contract for P10,000 at the time of purchase and P10,000 at the end of the next five years is measured at
a. The present value of a P10,000 ordinary annuity
b. P60,000
c. P60,000 plus imputed interest
d. P60,000 less imputed interest

69. It is an assistance by government in the form transfer of resources to an entity in return for past or future compliance with certain conditions.
a. Government grant
b. Government assistance
c. Government donation
d. Government aid

70. It is an action by a government designed to provide an economic benefit specific to an entity and for which the government cannot reasonably place a value.
a. Government grant
b. Government assistance
c. Government takeover
d. Subvention

71. The deferred grant income is classified as
a. Separate component of shareholders' equity
b. Noncurrent liability
c. Other income
d. Partly current and partly noncurrent liability

72. If the cost of the asset is recorded net of the grant
a. Equity is overstated.
b. Liability is overstated.
c. Asset is understated.
d. Net income is understated.

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73. Which disclosure is not required about government grant?
    a. The accounting policy adopted for government grant
    b. Unfulfilled condition and other contingency attaching to government assistance
    c. The name of the government agency that gave the grant
    d. The nature and extent of government grant recognized

74. Borrowing costs are defined as
    a. Interest expense using the effective interest method
    b. Finance charges in respect of finance lease
    c. Exchange differences arising from foreign currency borrowings to the extent that these are regarded an adjustment to interest cost
    d. Interest and other costs that an entity incurs in connection with borrowing of funds

75. I. If the borrowing is directly attributable to a qualifying asset, the borrowing cost is required to be capitalized as cost of the asset.
    II. If the borrowing is not directly related to a qualifying asset, the borrowing cost shall be expensed.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

76. An entity can commence capitalization of borrowing cost on a new construction project when
    a. Loan interest relating to the project starts to be incurred.
    b. Technical site planning commences.
    c. Expenditures on the project start to be incurred.
    d. Construction work commences.

77. Interest revenue earned on specific borrowing for qualifying asset
    a. Reduces the cost of the qualifying asset
    b. Reduces interest expense reported in the income statement
    c. Increases equity
    d. Must be credited to interest income

78. Which is not a disclosure requirement in relation to borrowing cost?
    a. Accounting policy adopted for borrowing cost
    b. Amount of borrowing cost capitalized during the period
    c. Segregation of qualifying asset from other assets
    d. Capitalization rate used to determine the amount of borrowing cost eligible for capitalization

79. Which of the following is not taken into account when determining the cost of inventory?
    a. Storage costs of part-finished goods
    b. Trade discounts
    c. Recoverable purchase taxes
    d. Import duties on shipping of inventory inward

80. Which of the following costs of conversion cannot be included in the cost of inventory?
    a. Cost of direct labor
    b. Factory rent and utilities
    c. Salaries of sales staff
    d. Factory overhead based on normal capacity

81. In a period of falling prices, the use of which inventory cost flow method would typically result in the highest cost of goods sold?
    a. FIFO
    b. LIFO
    c. Weighted average
    d. Specific identification

82. In a period of rising prices, the inventory cost allocation method that tends to result in the highest reported net income is
    a. LIFO
    b. FIFO
    c. Moving average
    d. Weighted average

83. PFRS prohibits which of the following cost flow assumptions?
    a. LIFO
    b. Specific identification
    c. Weighted average
    d. Any of these cost flow assumptions is allowed.

84. According to IASB, bearer plants are accounted for as
    a. Biological assets with disclosure
    b. Biological assets without disclosure
    c. Property, plant, and equipment
    d. Noncurrent investment

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85. According to IASB, bearer animals are accounted for as
    a. Biological assets
    b. Property, plant, and equipment
    c. Investment property
    d. Agricultural produce

86. When there is a long aging or maturation process after harvest, the accounting for such products shall be dealt with
    a. PAS 41
    b. PAS 2
    c. PAS 16
    d. PAS 40

87. What is the recoverable amount of an asset?
    a. Fair value less cost of disposal
    b. Value in use
    c. Fair value less cost of disposal or value in use, whichever is higher
    d. Fair value less cost of disposal or value in use, whichever is lower

88. Value in use is
    a. The present value of estimated future cash flows from continuing use of an asset and ultimate disposal
    b. The amount of cash that could currently be obtained by selling an asset in an orderly disposal
    c. The amount which an entity expects to obtain for an asset at the end of the useful life
    d. Undiscounted future net cash flows

89. If the fair value less cost of disposal cannot be determined
    a. The asset is not impaired.
    b. The recoverable amount is the value in use.
    c. The net realizable value is used.
    d. The carrying amount of the asset remains the same.

90. The following are the essential criteria in the definition of an intangible asset, except
    a. Physical substance
    b. Identifiability
    c. Control
    d. Future economic benefits

91. After initial recognition, an intangible asset shall be measured using
    a. Cost model
    b. Revaluation model
    c. Cost model or revaluation model
    d. Cost model or fair value model

92. Which disclosure is not required for an intangible asset
    a. Useful life of the intangible asset
    b. Reconciliation of carrying amount at beginning and end
    c. Contractual commitment for the acquisition of intangible asset
    d. Fair value of similar intangible asset used by the competitor

93. It is the deferred tax consequence attributable to a taxable temporary difference.
    a. Deferred tax liability
    b. Deferred tax asset
    c. Current tax liability
    d. Current tax asset

94. It is the deferred tax consequence attributable to a deductible temporary difference and operating loss carryforward.
    a. Deferred tax liability
    b. Deferred tax asset
    c. Current tax liability
    d. Current tax asset

95. An entity shall offset a deferred tax asset and liability
    a. When the taxes are levied by different taxing authorities
    b. When the entity has no legal right to offset
    c. When the taxes are levied by the same taxing authority and the entity has a legal enforceable right to offset a current tax asset against a current tax liability
    d. Under all circumstance

96. A change in the estimation of doubtful accounts is
    a. A change in accounting policy
    b. A change in accounting estimate
    c. An accounting error
    d. None of the above

97. In relation with item number 96, a change in the estimation of doubtful accounts requires
    a. Retrospective application on the beginning balance of retained earnings
    b. Retrospective application in profit or loss of current and future periods
    c. Prospective application on the beginning balance of retained earnings

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d. Prospective application in profit or loss of current and future periods

98. A change in the inventory cost flow is
    a. A change in accounting policy
    b. A change in accounting estimate
    c. An accounting error
    d. None of the above

99. In relation with item number 98, a change in the inventory cost flow requires
    a. Retrospective application on the beginning balance of retained earnings
    b. Retrospective application in profit or loss of current and future periods
    c. Prospective application on the beginning balance of retained earnings
    d. Prospective application in profit or loss of current and future periods

100. Which event after the reporting period would require adjustment?
    a. Loss of plant as a result of fire
    b. Change in the market price of investment
    c. Loss on inventory resulting from flood loss
    d. Loss on a lawsuit the outcome of which was deemed uncertain at year-end

101. Nonadjusting events include all, except
    a. The entity announced a discontinued operation.
    b. An agreement to purchase the leased building
    c. Destruction of a major production plant by fire
    d. A mistake in the calculation of allowance for doubtful accounts

102. Related parties include all of the following, except
    a. Parent, subsidiary, and fellow subsidiaries
    b. Associates
    c. Key management personnel and close family members of such key management personnel
    d. Two venturers simply because they share joint control over a joint venture

103. A related party transaction is a transfer
    a. Between related parties when a price is charged
    b. Between related parties, regardless of whether a price is charged
    c. Between unrelated parties when a price is charged
    d. Between unrelated parties, regardless of whether a price is charged

104. Interim financial reports shall be published
    a. Once a year at any time during the year
    b. Within a month of the half year-end
    c. On a quarterly basis
    d. Whenever the entity wishes

105. I. Interim reports are required.
    II. Interim reports are required on a quarterly basis.
    a. Only statement I is true.
    b. Only statement II is true.
    c. Both statements I and II are true.
    d. Both statements I and II are false.

Sources:

1. Conceptual Framework & Accounting Standards 2022 – Zeus Vernon Millan
2. Financial Accounting Theory 2022 – Conrado Valix & Christian Aris Valix

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Answer Key

1. A.
2. A.
3. B.
4. D.
5. C.
6. D.
7. D.
8. A.
9. B.
10. C.
11. C.
12. A.
13. A.
14. C.
15. B.
16. B.
17. D.
18. D.
19. C.
20. A.
21. B.
22. A.
23. D.
24. D.
25. D.
26. C.
27. C.
28. D.
29. A.
30. B.
31. D.
32. D.
33. A.
34. B.
35. D.
36. A.
37. C.
38. A.
39. B.
40. B.
41. D.
42. A.
43. B.
44. A.
45. D.
46. C
47. C.
48. C.
49. B.
50. D.
51. C.
52. A.
53. A.
54. A.
55. C.
56. B.
57. A.
58. D.
59. D.
60. C.
61. A.
62. B.
63. D.
64. B.
65. C.
66. A.
67. C.
68. D.
69. A.
70. B.
71. D.
72. C.
73. C.
74. D.
75. C.
76. C.
77. A.
78. C.
79. C.
80. C.
81. A.
82. B.
83. A.
84. C.
85. A.
86. B.
87. C.
88. A.
89. B.
90. A.
91. C.
92. D.
93. A.
94. B.
95. C.
96. B.
97. D.
98. A.
99. A.
100. D.
101. D.
102. D.
103. B.
104. D.
105. D.

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