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BEGINNING YOUR CPA REVIEW PROGRAM

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To maximize the efficiency of your review program, begin by studying (not merely reading) this chapter and the next three chapters of this volume. They have been carefully organized and written to provide you with important information to assist you in successfully completing the Financial Accounting and Reporting section of the CPA exam. Beyond providing a comprehensive outline to help you organize the material tested on the Financial Accounting and Reporting section of the exam, Chapter 1 will assist you in organizing a study program to prepare for the Financial Accounting and Reporting portion. Self-discipline is essential.

GENERAL COMMENTS ON THE EXAMINATION

The Uniform CPA Examination is now delivered using computer-based testing (CBT). The final paper-based version of the CPA exam was given in November 2003. Computer-based testing has several advantages. You may take the exam one section at a time. As a result, your studies can be focused on that one section, improving your chances for success. In addition, the exam is no longer offered twice a year. During eight months of every year, you may take the exam on your schedule, six days a week and in the morning or in the afternoon.

Successful completion of the Uniform CPA Examination in Financial Accounting and Reporting is an attainable goal. Keep this point foremost in your mind as you study the first four chapters in this volume and develop your study plan.

*Purpose of the Examination*¹

The Uniform CPA Examination is designed to test the entry-level knowledge and skills necessary to protect the public interest. These knowledge and skills were identified through a Practice Analysis performed in 2000, which served as a basis for the development of the content specifications for the new exam. The skills identified as necessary for the protection of the public interest include

- Analysis—the ability to organize, process, and interpret data to develop options for decision making.
- Judgment—the ability to evaluate options for decision-making and provide an appropriate conclusion.
- Communication—the ability to effectively elicit and/or express information through written or oral means.
- Research—the ability to locate and extract relevant information from available resource materials.

¹ More information may be obtained from the AICPA's *CPA Candidate Bulletin*, which is usually sent to CPA candidates by their State Board of Accountancy as they apply to sit for the CPA Examination. You can also find the publication on the AICPA's Web site at www.cpa-exam.org.

- Understanding—the ability to recognize and comprehend the meaning and application of a particular matter.

For the Financial Accounting and Reporting section, the Board of Examiners have provided the following matrix to illustrate the interaction of content and skills:

Content Specification Outline Areas	Skill Categories					Content Weights
	Communication	Research	Analysis	Judgment	Understanding	
I. Concepts and standards for financial statements						17-23%
II. Typical items in financial statements						27-33%
II. Specific types of transactions and events						27-33%
IV. Accounting and reporting for governmental entities						8-12%
V. Accounting and reporting for nongovernmental and not-for-profit organizations						8-12%
Skills Weights	6-16%	11-21%	13-23%	10-20%	35-45%	

You should keep these skills foremost in your mind as you prepare and sit for the Financial Accounting and Reporting section.

The CPA examination is one of many screening devices to assure the competence of those licensed to perform the attest function and to render professional accounting services. Other screening devices include educational requirements, ethics examinations, and work experience.

The examination appears to test the material covered in accounting programs of the better business schools. It also appears to be based upon the body of knowledge essential for the practice of public accounting and the auditor of a medium-sized client. Since the examination is primarily a textbook or academic examination, you should plan on taking it as soon as possible after completing your accounting education.

Examination Content

Guidance concerning topical content of the Financial Accounting and Reporting section of the CPA exam can be found in a document prepared by the Board of Examiners of the AICPA entitled *Uniform CPA Examination—Examination Content Specifications*. We have included the content outlines for Financial Accounting and Reporting in Chapter 5. These outlines should be used as an indication of the topics' relative emphasis on the exam.

The Board's objective in preparing this detailed listing of topics tested on the exam is to help "in assuring the continuing validity and reliability of the Uniform CPA Examination." These outlines are an excellent source of guidance concerning the areas and the emphasis to be given each area on future exams.

They are provided to each candidate in *CPA Candidate Bulletin* along with the Examination application or may be downloaded at the AICPA's exam Web site, www.cpa-exam.org.

New accounting and auditing pronouncements, including those in the governmental and not-for-profit areas, are tested in the testing window six months after the pronouncement's *effective* date. If early application is permitted, a pronouncement is tested six months after the *issuance* date; candidates are also responsible for the old pronouncement until it is superseded. The exam covers the Internal Revenue Code and federal tax regulations in effect six months before the particular testing window. For the Financial Accounting and Reporting section, federal laws are tested six months following their *effective* date and of uniform acts one year after their adoption by a simple majority of jurisdictions. The AICPA posts content changes regularly on its Internet site. The address is www.cpa-exam.org.

Nondisclosure and Computerization of Examination

Beginning May 1996, the Uniform CPA Examination became nondisclosed. For each exam section, candidates are required to agree to a *Statement of Confidentiality*, which states that they will not divulge the nature and content of any exam question. In April of 2004, the CPA exam became computer-based. Candidates take

the exam at Prometric sites in the 54 jurisdictions in which the CPA exam is offered. From April 5, 2004, going forward the CPA exam is offered continually during the testing windows shown below.

Testing Window (Exam Available)	January through February	April through May	July through August	October through November
AICPA Review & Update (Exam Unavailable)	March	June	September	December

One or more exam sections may be taken during any exam window, and the sections may be taken in any desired order. **However, no candidate will be allowed to sit for the same section more than once during any given testing window.** In addition, a candidate must pass all four sections of the CPA exam within a “rolling” eighteen-month period, which begins on the date he or she passes a section. In other words, you must pass the other three sections of the exam within eighteen months of when you pass the first section. If you do not pass all sections within the eighteen-month period, credit for any section(s) passed outside the eighteen-month period will expire and the section(s) must be retaken.

The following table compares the sections of the prior pencil-and-paper exam with the new computer-based exam. If you have earned conditional credit on the pencil-and-paper exam, the table also shows the section of the computer-based exam for which you will be given credit.

<i>Pencil-and-Paper Examination up to November 2003 (15.5 hours in 2 days)</i>	<i>Computer-Based Examination commencing April 5, 2004 (14 hours over flexible period of time)</i>
Auditing (4.5 hours) Financial Accounting & Reporting (4.5 hours) Accounting & Reporting (3.5 hours) Business Law & Professional Responsibilities (3 hours)	Auditing & Attestation (4.5 hours) Financial Accounting & Reporting (4 hours) Regulation (3 hours) Business Environment & Concepts (2.5 hours)

Candidates should keep abreast of the latest developments regarding transition rules and requirements from their state boards of accountancy. We will post more detailed information as it becomes available on the CPA Examination Review Wiley Web site at www.wiley.com/cpa.

Types of Questions

The computer-based Uniform CPA Examination consists of two basic question formats.

1. Multiple-Choice—questions requiring the selection of one of four responses to a short scenario.
2. Simulations—case studies that are used to assess knowledge and skills in a context approximating that found on the job through the use of realistic scenarios and tasks, and access to normally available and familiar resources.

The multiple-choice questions are much like the ones that have constituted a majority of the CPA examination for years. **And the good news is that these types of questions constitute about 70% of the Financial Accounting and Reporting section.** The simulations are new and information about this type of question is somewhat limited. However, we have attempted in this manual to use the latest available information to design study materials that will make you successful in answering simulation problems. You should refer to the AICPA Web site (www.cpa-exam.org) for the latest information about the format and content of this new type of question.

State Boards of Accountancy

The right to practice public accounting as a CPA is governed by individual state statutes. While some rules regarding the practice of public accounting vary from state to state, all State Boards of Accountancy use the Uniform CPA Examination and AICPA advisory grading service as one of the requirements to practice public accounting. Every candidate should contact the applicable State Board of Accountancy to determine the requirements to sit for the exam (e.g., education requirements and fees). For comparisons of requirements for various state boards and those policies that are uniform across jurisdictions, you should refer to the Web site of the National Association of State Boards of Accountancy (NASBA) at www.nasba.org.

A frequent problem candidates encounter is failure to apply by the deadline. **Apply to sit for the examination early. Also, you should use extreme care in filling out the application and mailing required materials to your State Board of Accountancy.** If possible, have a friend review your completed application before mailing with check and other documentation. Candidates miss a particular CPA examination window simply because of minor technical details that were overlooked (checks not signed, items not enclosed, question not answered on application, etc.). **Because of the very high volume of applications received in the**

more populous states, the administrative staff does not have time to call or write to correct minor details and will simply reject your application.

The various state boards, their Web sites, and telephone numbers are listed on the following page. Be sure to inquire of your state board for specific and current requirements.

It is possible for candidates to sit for the examination at a Prometric site in any state or territory. Candidates desiring to do so should contact the State Board of Accountancy in their home state.

Exam Scheduling

Once you have been cleared to take the exam by the applicable state board, you will receive by mail a Notice to Schedule (NTS) and may then schedule to sit for one or more sections of the exam. A Test Center Locator and Scheduler application is available on Prometric's Web site at www.prometric.com/cpa. This tool allows candidates to quickly determine the most convenient center and reserve a seat and time at the chosen center. Scheduling may also be accomplished by telephone or in-person at a test center. **To assure that you get your desired location and time period it is imperative that you schedule early. To get your first choice of dates, you are advised to schedule at least 45 days in advance. You will not be scheduled for an exam fewer than 5 days before testing.**

ATTRIBUTES OF EXAMINATION SUCCESS

Your primary objective in preparing for the Financial Accounting and Reporting section is to pass. Other objectives such as learning new and reviewing old material should be considered secondary. The six attributes of examination success discussed below are **essential**. You should study the attributes and work toward achieving/developing each of them **before** taking the examination.

1. Knowledge of Material

Two points are relevant to "knowledge of material" as an attribute of examination success. **First**, there is a distinct difference between being familiar with material and knowing the material. Frequently candidates confuse familiarity with knowledge. Can you remember when you just could not answer an examination question or did poorly on an examination, but maintained to yourself or your instructor that you knew the material? You probably were only familiar with the material. On the CPA examination, familiarity is insufficient; you must know the material. Remember the exam will test your ability to analyze data, make judgments, communicate, perform research, and demonstrate understanding of the material. For example, you may be familiar with the concepts in accounting for leases (SFAS 13), but can you compute the present value of an annuity due under a lease agreement and record entries for the lessee and lessor? Once again, a major concern must be to know the material rather than just being familiar with it. Knowledgeable discussion of the material is required on the CPA examination. **Second**, the Financial Accounting and Reporting exam tests a literally overwhelming amount of material at a rigorous level. From an undergraduate point of view, the CPA examination in Financial Accounting and Reporting includes material from the following courses.

Intermediate Financial (usually two semesters)
Advanced Financial

Furthermore, as noted earlier, the CPA exam will test new material, sometimes as early as six months after issuance. In other words, you are not only responsible for material in the above courses, but also for all new developments in each of these areas.

This text contains outlines of accounting topics from FASB pronouncements, financial accounting courses, etc. Return to the original material (e.g., FASB, your accounting textbooks, etc.) only if the outlines do not reinforce material you already know.

2. Commitment to Exam Preparation

Your preparation for the CPA exam should begin at least two months prior to the date you plan to schedule your seating for an exam section. If you plan to take more than one section, you should start earlier. Over the course of your preparation, you will experience many peaks and valleys. There will be days when you feel completely prepared and there will also be days when you feel totally overwhelmed. This is not unusual and, in fact, should be expected.

The CPA exam is a very difficult and challenging exam. How many times in your college career did you study months for an exam? Probably not too many. Therefore, candidates need to remain focused on the objective—succeeding on the CPA exam.

	STATE BOARD WEB ADDRESS	TELEPHONE #
AK	www.dced.state.ak.us/occ/pcpa.htm	(907) 465-3811
AL	www.asbpa.state.al.us	(334) 242-5700
AR	www.state.ar.us/asbpa	(501) 682-1520
AZ	www.accountancy.state.az.us	(602) 364-0900
CA	www.dca.ca.gov/cba	(916) 263-3680
CO	www.dora.state.co.us/accountants	(303) 894-7800
CT	www.sots.state.ct.us/sboa/sboaindex.html	(860) 509-6179
DC	dcra.dc.gov/information/build_pla/occupational/accountancy/index.shtm	(202) 442-4461
DE	www.professionallicensing.state.de.us	(302) 744-4500
FL	www.myflorida.com	(850) 487-1395
GA	www.sos.state.ga.us/plb/accountancy/	(478) 207-1400
GU	www.guam.net/gov/gba	(671) 477-1050
HI	www.state.hi.us/dcaa/pvl/areas_accountancy.html	(808) 586-2696
IA	www.state.ia.us/iacc	(515) 281-4126
ID	www.state.id.us/boa	(208) 334-2490
IL	www.illinois-cpa-exam.com or www.dpr.state.il.us	(217) 333-1565
IN	www.state.in.us/pla/bandc/accountancy/	(317) 232-5987
KS	www.ksboa.org	(785) 296-2162
KY	cpa.state.ky.us	(502) 595-3037
LA	www.cpaboard.state.la.us	(504) 566-1244
MA	www.state.ma.us/reg/boards/pa	(617) 727-1806
MD	www.dllr.state.md.us/license/occprof/account.html	(410) 230-6322
ME	www.maineprofessionalreg.org	(207) 624-8603
MI	www.michigan.gov/cis/0,1607,7-154-10557_12992_13878---,00.html	(517) 241-9249
MN	www.boa.state.mn.us	(651) 296-7938
MO	www.ecodev.state.mo.us/pr/account/	(573) 751-0012
MS	www.msarpa.state.ms.us	(601) 354-7320
MT	www.discoveringmontana.com/dli/pac	(406) 841-2389
NC	www.state.nc.us/cpabd	(919) 733-4222
ND	www.state.nd.us/ndsba	(800) 532-5904
NE	www.nol.org/home/bpa	(402) 471-3595
NH	www.state.nh.us/accountancy	(603) 271-3286
NJ	www.state.nj.us/lps/ca/nonmed.htm	(973) 504-6380
NM	www.rld.state.nm.us/b&c/accountancy/index.htm	(505) 841-9108
NV	www.cpa@nvaccountancy.com	(775) 786-0231
NY	www.op.nysed.gov/cpa.htm	(518) 474-3817
OH	www.state.oh.us/acc	(614) 466-4135
OK	www.oab.state.ok.us	(405) 521-2397
OR	www.boahost.com/index.lasso	(503) 378-4181
PA	www.dos.state.pa.us/bpoa/accbd/mainpage.htm	(717) 783-1404
PR	www.estado.gobierno.pr/contador.htm	(787) 722-4816
RI	www.dbr.state.ri.us	(401) 222-3185
SC	www.llr.state.sc.us/pol/accountancy/default.htm	(803) 896-4770
SD	www.state.sd.us/dol/accountancy	(605) 367-5770
TN	www.state.tn.us/commerce/boards/tnsba	(615) 741-2550
TX	www.tsbpa.state.tx.us	(512) 305-7800
UT	www.dopl.utah.gov	(801) 530-6396
VA	www.boa.state.va.us	(804) 367-8505
VI	www.dlca.gov.vi	(340) 773-4305
VT	vtprofessionals.org	(802) 828-2837
WA	www.cpaboard.wa.gov	(360) 753-2585
WI	www.drl.state.wi.us	(608) 266-5511
WV	www.state.wv.us/wvboa/	(304) 558-3557
WY	cpaboard.state.wy.us	(307) 777-7551

NOTE: The publisher does not assume responsibility for errors in the above information. You should request information concerning requirements in your state at least six months in advance of the exam dates.

Develop a personal study plan so that you are reviewing material daily. Of course, you should schedule an occasional study break to help you relax, but don't schedule too many breaks. Candidates who dedicate themselves to studying have a much greater chance of going through this process one time. On the other hand, a lack of focus and piecemeal preparation will only extend the process over a number of exam sittings.

3. Solutions Approach

The solutions approach is a systematic approach to solving the questions and simulations found on the CPA examination. Many candidates know the material fairly well when they sit for the CPA exam, but they do not know how to take the examination. Candidates generally neither work nor answer problems efficiently in terms of time or grades. The solutions approach permits you to avoid drawing "blanks" on CPA exam problems; using the solutions approach coupled with grading insights (see below) allows you to pick up a sizable number of points on test material with which you are not familiar. Chapter 3 outlines the solutions approach for multiple-choice questions and simulations.

4. Grading Insights

Your score on each section of the exam is determined by the sum of points assigned to individual questions and simulation parts. Thus, you must attempt to maximize your points on each individual item.

The number of points assigned to a multiple-choice question varies depending upon its difficulty level, easy, medium, or hard. **In other words, you receive more points for correctly answering a hard question than correctly answering an easy question.** Multiple-choice questions are organized in 30-question testlets, and each testlet includes questions from all of the content areas of the Financial Accounting and Reporting section.

With respect to the multiple-choice testlets, the CPA exam uses a form of adaptive testing known as multistage testing. Using this technique the average difficulty of subsequent testlet(s) is determined by how the candidate has performed on the previous testlet(s). Therefore, if you get a testlet with a preponderance of very difficult questions, do not become discouraged. It may mean that you performed very well on the previous testlet(s). In addition, since the number of points assigned to hard or medium questions will be greater than the number of points for easy questions, you have an opportunity to accumulate a large number of total points on that testlet.

Simulations include more extensive scenarios and a number of requirements. For example, the requirements may involve calculations, form completion, research, and written communication. The points assigned to the requirements will vary according to their difficulty. Most of the requirements are graded by the computer. Only those that involve written communication are graded manually. The simulations make use of a number of commonly used tools such as spreadsheets and electronic research databases. Therefore, you need to become proficient in the use of these tools to maximize your score on the simulations.

The AICPA includes sample examinations on its Web site that allow you to get experience with the use of the actual computer tools used on the CPA exam. Also, more experience with computer testing can be obtained by using Wiley CPA Review Practice software.

5. Examination Strategy

Prior to sitting for the examination, it is important to develop an examination strategy (i.e., an approach to working efficiently throughout the exam.). Your ability to cope successfully with the 4 hours of examination in Financial Accounting and Reporting can be improved by

- a. Recognizing the importance and usefulness of an examination strategy
- b. Using Chapter 4, Taking the Examination and previous examination experience to develop a "personal strategy" for the exam
- c. Testing your "personal strategy" on example examination questions under conditions similar to those at the test centers (using similar tools and databases and with a time limit)

6. Examination Confidence

You need confidence to endure the physical and mental demands of 4 hours of problem solving under tremendous pressure. Examination confidence results from proper preparation for the exam, which includes mastering the first five attributes of examination success. Examination confidence is necessary to enable you to overcome the initial frustration with problems for which you may not be specifically prepared.

This study manual, when properly used, contributes to your examination confidence. Build confidence by completing the questions contained herein.

Common Candidate Mistakes

The CPA Exam is a formidable hurdle in your accounting career. With a pass rate of about 40% on each section, the level of difficulty is obvious. The good news, though, is that about 75% of all candidates (first-time and reexam) sitting for each examination eventually pass. The authors believe that the first-time pass rate could be higher if candidates would be more careful. Eight common mistakes that many candidates make are

1. Failure to understand the exam question requirements
2. Misunderstanding the supporting text of the problem
3. Lack of knowledge of material tested, especially recently issued pronouncements
4. Failure to develop proficiency with computer-based testing and practice tools such as electronic research databases and spreadsheets
5. Inability to apply the solutions approach
6. Lack of an exam strategy (e.g., allocation of time)
7. Sloppiness and logical errors
8. Failure to proofread and edit

These mistakes are not mutually exclusive. Candidates may commit one or more of the above items. Remind yourself that when you decrease the number of common mistakes, you increase your chances of successfully becoming a CPA. Take the time to read carefully the exam question requirements. Do not jump into a quick start, only to later find out that you didn't understand what information the examiners were asking for. Read slowly and carefully. Take time to recall your knowledge. Respond to the question asked. Apply an exam strategy such as allocating your time among all question formats. Do not spend too much time on the multiple-choice testlets, leaving no time to spend on preparing your simulation responses. Upon completion of any written communications requirements, proofread and edit your answer. Use the spell check function of the word processor. Answer questions quickly but precisely, avoid common mistakes, and increase your score.

PURPOSE AND ORGANIZATION OF THIS REVIEW TEXTBOOK

This book is designed to help you prepare adequately for the Financial Accounting and Reporting examination. There is no easy way to prepare for the successful completion of the CPA Examination; however, through the use of this manual, your approach will be systematic and logical.

The objective of this book is to provide study materials supportive to CPA candidates. While no guarantees are made concerning the success of those using this text, this book promotes efficient preparation by

1. Explaining how to **maximize your score** through analysis of examination grading and illustration of the solutions approach.
2. **Defining areas tested** through the use of the content specification outlines. Note that predictions of future exams are not made. You should prepare yourself for all possible topics rather than gambling on the appearance of certain questions.
3. **Organizing your study program** by comprehensively outlining all of the subject matter tested on the examination in 14 easy-to-use study modules. Each study module is a manageable task which facilitates your exam preparation. Turn to Chapter 5 and peruse the contents to get a feel for the organization of this book.
4. **Providing CPA candidates with previous examination problems** organized by topic (e.g., consolidations, inventory, etc.) Questions have also been developed for new areas and in simulation format.
5. **Explaining the AICPA unofficial answers** to the examination questions included in this text. The AICPA publishes unofficial answers for all questions from exams administered prior to 1996 and for any released questions from exams administered on or after May 1996. However, no explanation is made of the approach that should have been applied to the examination questions to obtain these unofficial answers.

As you read the next few paragraphs which describe the contents of this book, flip through the chapters to gain a general familiarity with the book's organization and contents. Chapters 2, 3, and 4 are to help you maximize your score.

- Chapter 2 Examination Grading
- Chapter 3 The Solutions Approach

Chapter 4 Taking the Examination

Chapters 2, 3, and 4 contain material that should be kept in mind throughout your study program. Refer back to them frequently. Reread them for a final time just before you sit for the exam.

Chapter 5, Financial Accounting and Reporting, outlines and discusses the coverage of the Financial Accounting and Reporting section of the CPA examination. It also contains the AICPA Content Specification Outlines for all the Financial Accounting and Reporting topics tested in this section of the exam.

Chapter 5 (Financial Accounting and Reporting Modules) contains:

1. AICPA Content Specification Outlines of the material tested on the Financial Accounting and Reporting section of the exam
2. Multiple-choice questions
3. Practice problems and/or essay questions (included because they develop many of the skills necessary to answer simulations, e.g., research and writing skills)
4. Simulation problems
5. AICPA unofficial answers with the author's explanations for the multiple-choice questions
6. AICPA unofficial answers prefaced by the author's solution guides for the problems and essay questions
7. Author's answers to simulation problems

Also included at the end of this text is a complete Sample Financial Accounting and Reporting CPA Examination. The sample exam is included to enable candidates to gain experience in taking a "realistic" exam. While studying the modules, the candidate can become accustomed to concentrating on fairly narrow topics. By working through the sample examination near the end of their study programs, candidates will be better prepared for taking the actual examination. Because some simulations require the use of research materials, it is useful to have the appropriate electronic research database (FASB Financial Accounting Research System or a printed copy of professional standards to complete the sample examination). **Remember that this research material will not be available to answer the multiple-choice questions.**

Other Textbooks

This text is a comprehensive compilation of study guides and outlines; it should not be necessary to supplement them with accounting textbooks and other materials for most topics. You probably already have some of these texts or earlier editions of them. In such a case, you must make the decision whether to replace them and trade familiarity (including notes therein, etc.), with the cost and inconvenience of obtaining the newer texts containing a more updated presentation.

Before spending time and money acquiring new texts, begin your study program with *CPA EXAMINATION REVIEW: FINANCIAL ACCOUNTING AND REPORTING* to determine your need for supplemental texts.

Ordering Other Textual Materials

You probably already have intermediate and advanced texts for financial accounting and reporting. If you cannot order desired texts through a local bookstore, write the publisher directly.

If you want to order AICPA materials, locate an AICPA educator member to order your materials, since educators are entitled to a 30% discount and may place Web site or telephone orders. The backlog at the order department is substantial; Web site or telephone orders decrease delivery time.

AICPA (CPA2Biz)

Telephone: 888-777-7077

Web site: www.CPA2Biz.com

Address: Order Department
CPA2Biz

P.O. Box 2209

Jersey City, NJ 07303-2209

A variety of supplemental CPA products are available from John Wiley & Sons, Inc. By using a variety of learning techniques, such as software, computer-based learning, and audio CDs, the candidate is more likely to remain focused during the study process and to retain information for a longer period of time. Visit our Web site at www.wiley.com/cpa for other products, supplements, and updates.

Working CPA Questions

The AICPA Content Outlines, study outlines, etc., will be used to acquire and assimilate the knowledge tested on the examination. This, however, should be only **one-half** of your preparation program. The other

half should be spent practicing how to work questions and problems. Some candidates probably spend over 90% of their time reviewing material tested on the CPA exam. Much more time should be allocated to working questions and problems **under exam conditions**. Working examination questions and problems serves two functions. First, it helps you develop a solutions approach as well as solutions that will maximize your score. Second, it provides the best test of your knowledge of the material. At a minimum, candidates should work one of the more complex and difficult problems and simulations (e.g., pensions, statement of cash flows, consolidated financial statement worksheet) in each area or module.

The multiple-choice questions and answers can be used in many ways. First, they may be used as a diagnostic evaluation of your knowledge. For example, before beginning to review deferred taxes you may wish to answer 10 to 15 multiple-choice questions to determine your ability to answer CPA examination questions on deferred taxes. The apparent difficulty of the questions and the correctness of your answers will allow you to determine the necessary breadth and depth of your review. Additionally, exposure to examination questions prior to review and study of the material should provide motivation. You will develop a feel for your level of proficiency and an understanding of the scope and difficulty of past examination questions. Moreover, your review materials will explain concepts encountered in the diagnostic multiple-choice questions.

Second, the multiple-choice questions can be used as a poststudy or postreview evaluation. You should attempt to understand all concepts mentioned (even in incorrect answers) as you answer the questions. Refer to the explanation of the answer for discussion of the alternatives even though you selected the correct response. Thus, you should read the explanation of the unofficial answer unless you completely understand the question and all of the alternative answers.

Third, you may wish to use the multiple-choice questions as a primary study vehicle. This is probably the quickest but least thorough approach in preparing for the exam. Make a sincere effort to understand the question and to select the correct response before referring to the unofficial answer and explanation. In many cases, the explanations will appear inadequate because of your unfamiliarity with the topic. Always refer back to an appropriate study source, such as the outlines and text in this volume, your accounting textbooks, FASB pronouncements, etc.

The multiple-choice questions outnumber the simulations by greater than 10 to 1 in this book. This is similar to the proposed content of the new computer-based examination. One problem with so many multiple-choice questions is that you may overemphasize them. Candidates generally prefer to work multiple-choice questions because they are

1. Shorter and less time-consuming
2. Solvable with less effort
3. Less frustrating than essay problems and simulations

Another problem with the large number of multiple-choice questions is that you may tend to become overly familiar with the questions. The result may be that you begin reading the facts and assumptions of previously studied questions into the questions on your examination. Guard against this potential problem by reading each multiple-choice question with **extra** care.

Beginning with the introduction of the computer-based examination, the AICPA began testing with simulations. Simulation problems prepared by the authors and revised from prior CPA exam problems are incorporated in the modules to which they pertain. (See the listing of question material at the beginning of Chapter 5.)

Even though they are no longer included on the CPA exam, essay problems and computational problems from the prior paper and pencil exams are also included in this manual. These problems require the ability to organize and compose a solution, as well as in-depth knowledge of the subject matter. They are useful in developing the skills necessary to answer simulations. The problems and unofficial answers may also be used for study purposes without preparation of answers. Before turning to the unofficial answers, study the problem and outline the solution (either mentally or in the margin of the book). Look at our answer outline preceding the unofficial answer for each problem and compare it to your own. Next, read the unofficial answer, underlining keywords and phrases. The underlining should reinforce your study of the answer's content and also assist you in learning how to structure your solutions. Answer outlines representing the major concepts found in the unofficial answer are provided for each Financial Accounting and Reporting problem. These will facilitate your study of problems.

The questions and solutions in this volume provide you with an opportunity to diagnose and correct any exam-taking weaknesses prior to sitting for the examination. Continually analyze your incorrect solutions to determine the cause of the error(s) during your preparation for the exam. Treat each incorrect solution as a

mistake that will not be repeated (especially on the examination). Also attempt to generalize your weaknesses so that you may change, reinforce, or develop new approaches to exam preparation and exam taking.

After you have finished reviewing for the Financial Accounting and Reporting section of the exam, work the complete sample exam provided in Appendix B.

SELF-STUDY PROGRAM

CPA candidates generally find it difficult to organize and to complete their own self-study programs. A major problem is determining **what** and **how** to study. Another major problem is developing the self-discipline to stick to a study program. Relatedly, it is often difficult for CPA candidates to determine how much to study (i.e., determining when they are sufficiently prepared).

The following suggestions will assist you in developing a **systematic, comprehensive, and successful** self-study program to help you complete the Financial Accounting and Reporting exam.

Remember that these are only suggestions. You should modify them to suit your personality, available study time, and other constraints. Some of the suggestions may appear trivial, but CPA candidates generally need all the assistance they can get to systemize their study programs.

Study Facilities and Available Time

Locate study facilities that will be conducive to concentrated study. Factors that you should consider include

1. Noise distraction
2. Interruptions
3. Lighting
4. Availability (e.g., a local library is not available at 5:00 A.M.)
5. Accessibility (e.g., your kitchen table vs. your local library)
6. Desk or table space

You will probably find different study facilities optimal for different times (e.g., your kitchen table during early morning hours and local libraries during early evening hours).

Next review your personal and professional commitments from now until the exam to determine regularly available study time. Formalize a schedule to which you can reasonably commit yourself. At the end of this chapter, you will find a detailed approach to managing your time available for the exam preparation program.

Self-Evaluation

The *CPA EXAMINATION REVIEW: FINANCIAL ACCOUNTING AND REPORTING* self-study program is partitioned into 14 topics or modules. Since each module is clearly defined and should be studied separately, you have the task of preparing for the Financial Accounting and Reporting section of the CPA exam by tackling 14 manageable tasks. Partitioning the overall project into 14 modules makes preparation psychologically easier, since you sense yourself completing one small step at a time rather than seemingly never completing one or a few large steps.

By completing the following “Preliminary Estimate of Your Knowledge of Subject” inventory, organized by the 14 modules in this program, you will tabulate your strong and weak areas at the beginning of your study program. This will help you budget your limited study time. Note that you should begin studying the material in each module by answering up to 1/4 of the total multiple-choice questions covering that module’s topics (see instruction 4.A. in the next section). This “mini-exam” should constitute a diagnostic evaluation as to the amount of review and study you need.

PRELIMINARY ESTIMATE OF YOUR PRESENT KNOWLEDGE OF SUBJECT*

No.	Module	Proficient	Fairly proficient	Generally familiar	Not familiar
7	Basic Theory and Financial Reporting				
8	Inventory				
9	Fixed Assets				
10	Monetary Current Assets and Current Liabilities				
11	Present Value				
12	Deferred Taxes				
13	Stockholders' Equity				
14	Investments				
15	Statement of Cash Flows				
16	Business Combinations and Consolidations				
17	Derivative Instruments and Hedging Activities				
18	Miscellaneous				
19	Governmental Accounting				
20	Not-for-Profit Accounting				

*The number of modules in this text commences with number 7 to correspond with the numbering system used in our two-volume set.

Time Allocation

The study program below entails an average of 80 hours (Step 5. below) of study time. The breakdown of total hours is indicated in the left margin.

- [2 1/2 hrs.] 1. Study Chapters 2-4 in this volume. These chapters are essential to your efficient preparation program. Time estimate includes candidate's review of the examples of the solutions approach in Chapters 2 and 3.
- [1/2 hr.] 2. Begin FINANCIAL ACCOUNTING AND REPORTING by studying Chapter 5.
3. Study one module at a time. The modules are listed above in the self-evaluation section.
4. For each module
- [14 hrs.] A. Work 1/4 of the multiple-choice questions (e.g., if there are 40 multiple-choice questions in a module, you should work every 4th question). Score yourself. This diagnostic routine will provide you with an index of your proficiency and familiarity with the type and difficulty of questions.
Time estimate: 3 minutes each, not to exceed 1 hour total.
- [21 hrs.] B. Study the outlines and illustrations. Refer to outlines of authoritative pronouncements per instructions. Also refer to your accounting textbooks and original authoritative pronouncements (this will occur more frequently for topics in which you have a weak background).
Time estimate: 1 hour minimum per module, with more time devoted to topics less familiar to you.
- [18 hrs.] C. Work the remaining multiple-choice questions. Study the explanations of the multiple-choice questions you missed or had trouble answering.
Time estimate: 3 minutes to answer each question and 2 minutes to study the answer explanation of each question missed.
- [8 hrs.] D. Work the problems and simulation problems.
Time estimate: 25 minutes for each problem and 10 minutes to study the answer explanations for each item missed.
- [10 hrs.] E. Under simulated exam conditions, work the simulations in Appendix A.
Time estimate: 45 minutes for each simulation problem, and 20 minutes to review the solution guide for each problem worked.
- [6 hrs.] F. Work through the sample CPA examination presented at the end of this text. The exam should be taken in one sitting.
- Take the examination under simulated exam conditions (i.e., in a strange place with other people present [e.g., your local municipal library or a computer lab]). Apply your solutions approach to each problem and your exam strategy to the overall exam.

You should limit yourself to the time that you will have when taking the actual CPA exam section (4.5 hours for the Financial Accounting and Reporting section). Spend time afterwards grading your work and reviewing your effort. It might be helpful to do this with other CPA candidates. Another person looking over your exam might be more objective and notice things such as clarity of writing assignments, etc.

Time estimate: 5-6 hours to take the exam and review it later.

- The total suggested time of 80 hours is only an average. Allocation of time will vary candidate by candidate. Time requirements vary due to the diverse backgrounds and abilities of CPA candidates.

Allocate your time so you gain the most proficiency in the least time. Remember that while 80 hours will be required, you should break the overall project down into 14 more manageable tasks. Do not study more than one module during each study session.

Using Notecards

Below are one candidate's notecards on financial accounting and reporting topics which illustrate how key definitions, formulas, lists, etc. can be summarized on index cards for quick review. Since candidates can take these anywhere they go, they are a very efficient review tool.

<u>Business Combinations</u>		<u>Accounting Changes</u>		
<ul style="list-style-type: none"> • <i>Must use purchase method</i> • <i>FMV, differential may have goodwill CNI from date of combination</i> 		<i>Cum. effect</i>	<i>Pro forma</i>	<i>Restate FS</i>
	<i>Δ in estimate</i>	<i>N</i>	<i>N</i>	<i>N</i>
	<i>Δ in principle</i>	<i>Y</i>	<i>Y</i>	<i>N</i>
	<i>Δ in reporting entity</i>	<i>N</i>	<i>N</i>	<i>Y</i>

Prepared by Greg Graber, CPA, former student, Northern Illinois University

Level of Proficiency Required

What level of proficiency must you develop with respect to each of the topics to pass the exam? You should work toward a minimum correct rate on the multiple-choice questions of 80%. Working towards these correct rates or higher ones for Financial Accounting and Reporting will allow for a margin.

Warning: Disproportional study time devoted to multiple-choice (relative to simulations) can be disastrous on the exam. You should work a substantial number of essay and simulation problems under exam conditions, even though multiple-choice questions are easier to work and are used to gauge your proficiency. The authors believe that practicing essay and simulation problems will also improve your proficiency on the multiple-choice questions.

Multiple-Choice Feedback

One of the benefits of working through previous exam questions is that it helps you to identify your weak areas. Once you have graded your answers, your strong areas and weak areas should be clearly evident. Yet, the important point here is that you should not stop at a simple percentage evaluation. The percentage only provides general feedback about your knowledge of the material contained within that particular module. The percentage **does not** give you any specific feedback regarding the concepts which were tested. In order to get this feedback, you should look at the questions missed on an individual basis because this will help you gain a better understanding of **why** you missed the question.

This feedback process has been facilitated by the fact that within each module where the multiple-choice answer key appears, two blank lines have been inserted next to the multiple-choice answers. As you grade the multiple-choice questions, mark those questions which you have missed. However, instead of just marking the questions right and wrong, you should now focus on marking the questions in a manner which identifies **why**

you missed the question. As an example, a candidate could mark the questions in the following manner: ✓ for math mistakes, x for conceptual mistakes, and ? for areas which the candidate was unfamiliar with. The candidate should then correct these mistakes by reworking through the marked questions.

The objective of this marking technique is to help you identify your weak areas and thus, the concepts which you should be focusing on. While it is still important for you to get between 75% and 80% correct when working multiple-choice questions, it is more important for you to understand the concepts. This understanding applies to both the questions answered correctly and those answered incorrectly. Remember, questions on the CPA exam will be different from the questions in the book, however, the concepts will be the same. Therefore, your preparation should focus on understanding concepts, not just getting the correct answer.

Conditional Candidates

If you have received conditional status on the examination, you must concentrate on the remaining section(s). Unfortunately, many candidates do not study after conditioning the exam, relying on luck to get them through the remaining section(s). Conditional candidates will find that material contained in Chapters 1- 4 and the information contained in the appropriate modules will benefit them in preparing for the remaining section(s) of the examination.

PLANNING FOR THE EXAMINATION

Overall Strategy

An overriding concern should be an orderly, systematic approach toward both your preparation program and your examination strategy. A major objective should be to avoid any surprises or anything else that would rattle you during the examination. In other words, you want to be in complete control as much as possible. Control is of paramount importance from both positive and negative viewpoints. The presence of control on your part will add to your confidence and your ability to prepare for and take the exam. Moreover, the presence of control will make your preparation program more enjoyable (or at least less distasteful). On the other hand, a lack of organization will result in inefficiency in preparing and taking the examination, with a highly predictable outcome. Likewise, distractions during the examination (e.g., inadequate lodging, long drive) are generally disastrous.

In summary, establishing a systematic, orderly approach to taking the examination is of paramount importance. Follow these six steps:

1. Develop an overall strategy at the beginning of your preparation program (see below)
2. Supplement your overall strategy with outlines of material tested on the Financial Accounting and Reporting exam (see Chapter 5)
3. Supplement your overall strategy with an explicitly stated set of problem-solving procedures—the solutions approach
4. Supplement your overall strategy with an explicitly stated approach to each examination session (see Chapter 4)
5. Evaluate your preparation progress on a regular basis and prepare lists of things “to do” (see Weekly Review of Preparation Program Progress on following page)
6. RELAX: You can pass the exam. Over 20,000 candidates successfully complete the exam each year. You will be one of them if you complete an efficient preparation program and execute well (i.e., use your solutions approach and exam strategy) while writing the exam.

The following outline is designed to provide you with a general framework of the tasks before you. You should tailor the outline to your needs by adding specific items and comments.

A. Preparation Program (refer to Self-Study Program discussed previously)

1. Obtain and organize study materials
2. Locate facilities conducive for studying and block out study time
3. Develop your solutions approach (including solving simulation problems as well as multiple-choice questions)
4. Prepare an examination strategy
5. Study the material tested recently and prepare answers to actual exam questions on these topics under examination conditions
6. Periodically evaluate your progress

B. Physical Arrangements

1. Apply to and obtain acceptance from your state board
2. Schedule your testing location and time

C. Taking the Examination (covered in detail in Chapter 4)

1. Become familiar with location of the test center and procedures
2. Implement examination strategies and the solutions approach

Weekly Review of Preparation Program Progress

The following pages contain a hypothetical weekly review of program progress. You should prepare a similar progress chart. This procedure, which takes only about 5 minutes per week, will help you proceed through a more efficient, complete preparation program.

Make notes of materials and topics

1. That you have studied
2. That you have completed
3. That need additional study

Weeks to go

Comments on progress, "to do" items, etc.

12	<ol style="list-style-type: none"> 1) Read Basic Theory and Financial Reporting Module 2) Made notecards 3) Worked the MC Questions and Simulation Problems, on a sample basis 4) Need to work Problems and Simulation Problems using the solutions approach
11	<ol style="list-style-type: none"> 1) Read Fixed Assets and Stockholders' Equity Modules 2) Made notecards 3) Read the FFAI and APB outlines that correspond to these topics 4) Briefly looked over the MC for both modules
10	<ol style="list-style-type: none"> 1) Read Monetary Current Assets and Current Liabilities Module 2) Made notecards 3) Read the corresponding FFAI/APB outlines 4) Worked the MC Questions and Problems and Simulation Problems for Fixed Assets, Stockholders' Equity, and Monetary CA/L
9	<ol style="list-style-type: none"> 1) Read the Inventory and Statement of Cash Flows Modules 2) Made notecards 3) Skimmed the FFAI and APB outlines, taking notes of important areas 4) Worked the MC Questions and Simulation Problems
8	<ol style="list-style-type: none"> 1) Read the Present Value Module 2) Made notecards 3) Studied the FFAIs and APBs on leases and pensions 4) Completed the MC Questions and Simulation Problems 5) Need to work Problems for leases and pensions

	<ol style="list-style-type: none"> 1) <i>Read Deferred Taxes Module</i> 2) <i>Made notecards</i> 3) <i>Read the corresponding IFA and APB outlines</i>
7	<ol style="list-style-type: none"> 4) <i>Worked the MC Questions and Simulation Problems</i> 5) <i>Worked some Essays/Problems for all modules studied thus far</i>

	<ol style="list-style-type: none"> 1) <i>Read the Derivative Instruments and Hedging Activities and Miscellaneous Modules</i> 2) <i>Made notecards</i> 3) <i>Read the corresponding IFA and APB outlines</i>
6	<ol style="list-style-type: none"> 4) <i>Worked the MC Questions and Problems for these modules</i> 5) <i>Confident with these mods; only need a quick review</i>

	<ol style="list-style-type: none"> 1) <i>Read Investments Module</i> 2) <i>Made notecards</i> 3) <i>Read the corresponding IFA and APB outlines</i>
5	<ol style="list-style-type: none"> 4) <i>Worked the MC Questions and Simulation Problems</i>

	<ol style="list-style-type: none"> 1) <i>Read the Business Combinations and Consolidations Module</i> 2) <i>Reviewed consolidations in an advanced accounting textbook</i> 3) <i>Made notecards</i>
4	<ol style="list-style-type: none"> 4) <i>Worked the MC Questions and Simulation Problems</i>

	<ol style="list-style-type: none"> 1) <i>Worked some Essays/Problems for all modules studied in weeks 6-4</i> 2) <i>Took Financial Accounting and Reporting Sample Exam</i>
3	<ol style="list-style-type: none"> 3) <i>Worked lease, pension, and purchase and pooling problems. Am now confident in those areas.</i>

	<ol style="list-style-type: none"> 1) <i>Reviewed all prior topics, picking out a few MC for each topic and working them out</i> 2) <i>Did a statement of cash flows</i> 3) <i>Completed all Simulations in Appendix A</i>
2	

	<ol style="list-style-type: none"> 1) <i>Reviewed notecards and IFA and APB outlines</i> 2) <i>Worked MC from Deferred Taxes and Stockholders' Equity Modules</i>
1	

0	<ol style="list-style-type: none"> 1) <i>Tried to relax and review topics</i>
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Time Management of Your Preparation

As you begin your CPA exam preparation, you obviously realize that there is a large amount of material to cover over the course of the next two to three months. Therefore, it is very important for you to organize your calendar, and maybe even your daily routine, so that you can allocate sufficient time to studying. An organized approach to your preparation is much more effective than a last week cram session. An organized approach also builds up the confidence necessary to succeed on the CPA exam.

An approach which we have already suggested is to develop weekly “to do” lists. This technique helps you to establish intermediate objectives and goals as you progress through your study plan. You can then focus your efforts on small tasks and not feel overwhelmed by the entire process. And as you accomplish these tasks you will see yourself moving one step closer to realizing the overall goal, succeeding on the CPA exam.

Note, however, that the underlying assumption of this approach is that you have found the time during the week to study and thus accomplish the different tasks. Although this is an obvious step, it is still a very important step. Your exam preparation should be of a continuous nature and not one that jumps around the calendar. Therefore, you should strive to find available study time within your daily schedule, which can be utilized on a consistent basis. For example, everyone has certain hours of the day which are already committed for activities such as jobs, classes, and, of course, sleep. There is also going to be the time you spend relaxing because CPA candidates should try to maintain some balance in their lives. Sometimes too much studying can be counterproductive. But there will be some time available to you for studying and working through the questions. Block off this available time and use it only for exam prep. Use the time to accomplish your weekly tasks and to keep yourself committed to the process. After awhile your preparation will develop into a habit and the preparation will not seem as overwhelming as it once did.

**NOW IS THE TIME
TO MAKE YOUR COMMITMENT**
