

Test Information  
Guide:  
College-Level  
Examination  
Program<sup>®</sup>

2015-16

Financial Accounting

# CLEP TEST INFORMATION GUIDE FOR FINANCIAL ACCOUNTING

## History of CLEP

Since 1967, the College-Level Examination Program (CLEP®) has provided over six million people with the opportunity to reach their educational goals. CLEP participants have received college credit for knowledge and expertise they have gained through prior course work, independent study or work and life experience.

Over the years, the CLEP examinations have evolved to keep pace with changing curricula and pedagogy. Typically, the examinations represent material taught in introductory college-level courses from all areas of the college curriculum. Students may choose from 33 different subject areas in which to demonstrate their mastery of college-level material.

Today, more than 2,900 colleges and universities recognize and grant credit for CLEP.

## Philosophy of CLEP

Promoting access to higher education is CLEP's foundation. CLEP offers students an opportunity to demonstrate and receive validation of their college-level skills and knowledge. Students who achieve an appropriate score on a CLEP exam can enrich their college experience with higher-level courses in their major field of study, expand their horizons by taking a wider array of electives and avoid repetition of material that they already know.

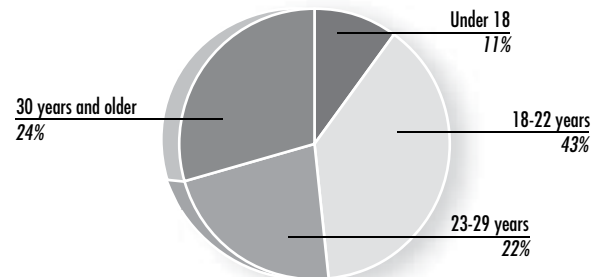
## CLEP Participants

CLEP's test-taking population includes people of all ages and walks of life. Traditional 18- to 22-year-old students, adults just entering or returning to school, high-school students, home-schoolers and international students who need to quantify their knowledge have all been assisted by CLEP in earning their college degrees. Currently, 59 percent of CLEP's National (civilian) test-takers are women and 46 percent are 23 years of age or older.

For over 30 years, the College Board has worked to provide government-funded credit-by-exam opportunities to the military through CLEP. Military service members are fully funded for their CLEP exam fees. Exams are administered at military installations

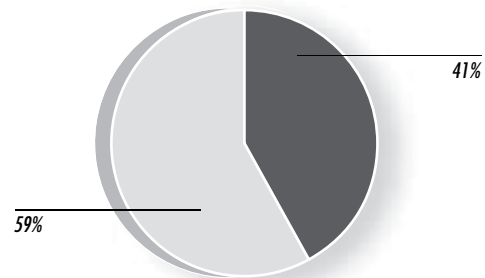
worldwide through computer-based testing programs. Approximately one-third of all CLEP candidates are military service members.

2014-15 National CLEP Candidates by Age\*



\* These data are based on 100% of CLEP test-takers who responded to this survey question during their examinations.

2014-15 National CLEP Candidates by Gender



## Computer-Based CLEP Testing

The computer-based format of CLEP exams allows for a number of key features. These include:

- a variety of question formats that ensure effective assessment
- real-time score reporting that gives students and colleges the ability to make immediate credit-granting decisions (except College Composition, which requires faculty scoring of essays twice a month)
- a uniform recommended credit-granting score of 50 for all exams
- “rights-only” scoring, which awards one point per correct answer
- pretest questions that are not scored but provide current candidate population data and allow for rapid expansion of question pools

## CLEP Exam Development

Content development for each of the CLEP exams is directed by a test development committee. Each committee is composed of faculty from a wide variety of institutions who are currently teaching the relevant college undergraduate courses. The committee members establish the test specifications based on feedback from a national curriculum survey; recommend credit-granting scores and standards; develop and select test questions; review statistical data and prepare descriptive material for use by faculty (*Test Information Guides*) and students planning to take the tests (*CLEP Official Study Guide*).

College faculty also participate in CLEP in other ways: they convene periodically as part of standard-setting panels to determine the recommended level of student competency for the granting of college credit; they are called upon to write exam questions and to review exam forms; and they help to ensure the continuing relevance of the CLEP examinations through the curriculum surveys.

## The Curriculum Survey

The first step in the construction of a CLEP exam is a curriculum survey. Its main purpose is to obtain information needed to develop test-content specifications that reflect the current college curriculum and to recognize anticipated changes in the field. The surveys of college faculty are conducted in each subject every few years depending on the discipline. Specifically, the survey gathers information on:

- the major content and skill areas covered in the equivalent course and the proportion of the course devoted to each area
- specific topics taught and the emphasis given to each topic
- specific skills students are expected to acquire and the relative emphasis given to them
- recent and anticipated changes in course content, skills and topics
- the primary textbooks and supplementary learning resources used
- titles and lengths of college courses that correspond to the CLEP exam

## The Committee

The College Board appoints standing committees of college faculty for each test title in the CLEP battery. Committee members usually serve a term of up to four years. Each committee works with content specialists at Educational Testing Service to establish test specifications and develop the tests. Listed below are the current committee members and their institutional affiliations.

Lynn Clements, <i>Chair</i>	Florida Southern College
Edmund Fenton	Eastern Kentucky University
Joseph Hargadon	Widener University

The primary objective of the committee is to produce tests with good content validity. CLEP tests must be rigorous and relevant to the discipline and the appropriate courses. While the consensus of the committee members is that this test has high content validity for a typical introductory Financial Accounting course or curriculum, the validity of the content for a specific course or curriculum is best determined locally through careful review and comparison of test content, with instructional content covered in a particular course or curriculum.

## The Committee Meeting

The exam is developed from a pool of questions written by committee members and outside question writers. All questions that will be scored on a CLEP exam have been pretested; those that pass a rigorous statistical analysis for content relevance, difficulty, fairness and correlation with assessment criteria are added to the pool. These questions are compiled by test development specialists according to the test specifications, and are presented to all the committee members for a final review. Before convening at a two- or three-day committee meeting, the members have a chance to review the test specifications and the pool of questions available for possible inclusion in the exam.

At the meeting, the committee determines whether the questions are appropriate for the test and, if not, whether they need to be reworked and pretested again to ensure that they are accurate and unambiguous. Finally, draft forms of the exam are reviewed to ensure comparable levels of difficulty and content specifications on the various test forms. The committee is also responsible for writing and developing pretest questions. These questions are administered to candidates who take the examination and provide valuable statistical feedback on student performance under operational conditions.

Once the questions are developed and pretested, tests are assembled in one of two ways. In some cases, test forms are assembled in their entirety. These forms are of comparable difficulty and are therefore interchangeable. More commonly, questions are assembled into smaller, content-specific units called testlets, which can then be combined in different ways to create multiple test forms. This method allows many different forms to be assembled from a pool of questions.

## Test Specifications

Test content specifications are determined primarily through the curriculum survey, the expertise of the committee and test development specialists, the recommendations of appropriate councils and conferences, textbook reviews and other appropriate sources of information. Content specifications take into account:

- the purpose of the test
- the intended test-taker population
- the titles and descriptions of courses the test is designed to reflect
- the specific subject matter and abilities to be tested
- the length of the test, types of questions and instructions to be used

## Recommendation of the American Council on Education (ACE)

The American Council on Education's College Credit Recommendation Service (ACE CREDIT) has evaluated CLEP processes and procedures for developing, administering and scoring the exams. Effective July 2001, ACE recommended a uniform credit-granting score of 50 across all subjects (with additional Level-2 recommendations for the world language examinations), representing the performance of students who earn a grade of C in the corresponding course. Every test title has a minimum score of **20**, a maximum score of **80** and a cut score of **50**. However, these score values cannot be compared across exams. The score scale is set so that a score of **50** represents the performance expected of a typical C student, which may differ from one subject to another. The score scale is not based on actual performance of test-takers. It is derived from the judgment of a panel of experts (college faculty who teach an equivalent course) who provide information on the level of student performance that would be necessary to receive college credit in the course.

Over the years, the CLEP examinations have been adapted to adjust to changes in curricula and pedagogy. As academic disciplines evolve, college faculty incorporate new methods and theory into their courses. CLEP examinations are revised to reflect those changes so the examinations continue to meet the needs of colleges and students. The CLEP program's most recent ACE CREDIT review was held in June 2015.

The American Council on Education, the major coordinating body for all the nation's higher education institutions, seeks to provide leadership and a unifying voice on key higher education issues and to influence public policy through advocacy, research and program initiatives. For more information, visit the ACE CREDIT website at [www.acenet.edu/acecredit](http://www.acenet.edu/acecredit).

## CLEP Credit Granting

CLEP uses a common recommended credit-granting score of 50 for all CLEP exams.

This common credit-granting score does not mean, however, that the standards for all CLEP exams are the same. When a new or revised version of a test is introduced, the program conducts a standard setting to determine the recommended credit-granting score (“cut score”).

A standard-setting panel, consisting of 15–20 faculty members from colleges and universities across the country who are currently teaching the course, is appointed to give its expert judgment on the level of student performance that would be necessary to receive college credit in the course. The panel reviews the test and test specifications and defines

the capabilities of the typical A student, as well as those of the typical B, C and D students.\* Expected individual student performance is rated by each panelist on each question. The combined average of the ratings is used to determine a recommended number of examination questions that must be answered correctly to mirror classroom performance of typical B and C students in the related course. The panel’s findings are given to members of the test development committee who, with the help of Educational Testing Service and College Board psychometric specialists, make a final determination on which raw scores are equivalent to B and C levels of performance.

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\*Student performance for the language exams (French, German and Spanish) is defined only at the B and C levels.

# Financial Accounting

## Description of the Examination

The Financial Accounting examination covers skills and concepts that are generally taught in a first-semester undergraduate financial accounting course. Colleges may award credit for a one-semester course in financial accounting.

The exam contains approximately 75 questions to be answered in 90 minutes. Some of these are pretest questions that will not be scored. Any time candidates spend on tutorials or providing personal information is in addition to the actual testing time.

## Knowledge and Skills Required

Questions on the Financial Accounting examination require candidates to demonstrate one or more of the following abilities.

- Familiarity with accounting concepts and terminology
- Preparation, use and analysis of accounting data and financial reports issued for both internal and external purposes
- Application of accounting techniques to simple problem situations involving computations
- Understanding the rationale for generally accepted accounting principles and procedures

The subject matter of the Financial Accounting examination is drawn from the following topics. The percentages next to the main topics indicate the approximate percentage of exam questions on that topic.

20%–30%	<b>General Topics</b> <ul style="list-style-type: none"><li>• Generally accepted accounting principles</li><li>• Rules of double-entry accounting/transaction analysis/accounting equation</li><li>• The accounting cycle</li><li>• Business ethics</li><li>• Purpose of, presentation of, and relationships between financial statements</li><li>• Forms of business</li></ul>
20%–30%	<b>The Income Statement</b> <ul style="list-style-type: none"><li>• Presentation format issues</li><li>• Recognition of revenue and expenses</li><li>• Cost of goods sold</li><li>• Irregular items (e.g., discontinued operations, extraordinary items, etc.)</li><li>• Profitability analysis</li></ul>
30%–40%	<b>The Balance Sheet</b> <ul style="list-style-type: none"><li>• Cash and internal controls</li><li>• Valuation of accounts and notes receivable (including bad debts)</li><li>• Valuation of inventories</li><li>• Acquisition and disposal of long-term asset</li><li>• Depreciation/amortization/depletion</li><li>• Intangible assets (e.g., patents, goodwill, etc.)</li><li>• Accounts and notes payable</li><li>• Long-term liabilities (e.g., bonds payable)</li><li>• Owner's equity</li><li>• Preferred and common stock</li><li>• Retained earnings</li><li>• Liquidity, solvency and activity analysis</li></ul>
5%–10%	<b>Statement of Cash Flows</b> <ul style="list-style-type: none"><li>• Indirect method</li><li>• Cash flow analysis</li><li>• Operating, financing and investing activities</li></ul>
Less than 5%	<b>Miscellaneous</b> <ul style="list-style-type: none"><li>• Investments</li><li>• Contingent liabilities</li></ul>

### Sample Test Questions

The following sample questions do not appear on an actual CLEP examination. They are intended to give potential test-takers an indication of the format and difficulty level of the examination and to provide content for practice and review. Knowing the correct answers to all of the sample questions is not a guarantee of satisfactory performance on the exam.

**Directions:** Each of the questions or incomplete statements below is followed by five suggested answers or completions. Select the one that is best in each case.

1. Which of the following will always increase when net income increases?
  - (A) Liabilities
  - (B) Cash
  - (C) Merchandise
  - (D) Sales
  - (E) Equity
  
2. Assume there are 365 days in a year. What is the number of days' inventory on hand for a firm with cost of goods sold of \$750,000 and average inventory of \$150,000 ?
  - (A) 5
  - (B) 8
  - (C) 20
  - (D) 43
  - (E) 73
  
3. During the current year, accounts receivable increased from \$27,000 to \$41,000, and sales were \$225,000. Based on this information, how much cash did the company collect from its customers during the year?
  - (A) \$225,000
  - (B) \$239,000
  - (C) \$211,000
  - (D) \$252,000
  - (E) \$266,000
  
4. Accounts receivable turnover helps determine
  - (A) the balance of accounts payable
  - (B) the customers who have recently paid their bills
  - (C) how quickly a firm collects cash on its credit sales
  - (D) when to write off delinquent accounts
  - (E) credit sales
  
5. The income statement is designed to measure
  - (A) whether a firm is able to pay its bills
  - (B) how solvent a company has been
  - (C) how much cash flow a firm is likely to generate
  - (D) the financial position of a firm
  - (E) the results of business operations
  
6. A company prepares a bank reconciliation in order to
  - (A) determine the correct amount of the cash balance
  - (B) satisfy banking regulations
  - (C) determine deposits not yet recorded by the bank
  - (D) double-check the amount of petty cash
  - (E) record all check disbursements
  
7. An inventory valuation method such as FIFO or LIFO affects
  - (A) the cost of goods sold but not the balance sheet
  - (B) the balance sheet but not the cost of goods sold
  - (C) both the income statement and the balance sheet
  - (D) neither the income statement nor the balance sheet
  - (E) the cost of goods sold but not the income statement

8. A liability for dividends is recorded on which of the following?
- (A) The declaration date
  - (B) The record date
  - (C) The payment date
  - (D) The collection date
  - (E) The statement date
9. Assets are classified as intangible under which of the following conditions?
- (A) They are converted into cash within one year.
  - (B) They have no physical substance.
  - (C) They are acquired in a merger.
  - (D) They are held for resale.
  - (E) They are short term and used in operations.
10. Return on assets helps users of financial statements evaluate which of the following?
- (A) Profitability
  - (B) Liquidity
  - (C) Solvency
  - (D) Cash flow
  - (E) Reliability
11. What impact does collecting a receivable have?
- (A) Total assets increase.
  - (B) Total assets decrease.
  - (C) Net income increases.
  - (D) Net income decreases.
  - (E) Total assets and net income are not affected.
12. The financial statement that includes classifications for operating, financing, and investing activities of a business entity for a period of time is called the
- (A) Income Statement
  - (B) Statement of Retained Earnings
  - (C) Balance Sheet
  - (D) Statement of Changes in Owners' Equity
  - (E) Statement of Cash Flows
13. In a period of rising prices, which of the following inventory methods results in the highest cost of goods sold?
- (A) FIFO
  - (B) LIFO
  - (C) Average cost
  - (D) Periodic inventory
  - (E) Perpetual inventory
14. Dividends paid is shown on which of the following financial statements?
- (A) Balance sheet
  - (B) Income statement
  - (C) Statement of cash flows
  - (D) Statement of cost of goods manufactured
  - (E) Statement of comprehensive income



15. Equipment with a cost of \$50,000 has an estimated residual value of \$2,000 and an estimated life of ten years or 8,000 machine hours. It is to be depreciated by the units-of-production method. What is the amount of depreciation for the third year, during which the machine was used 1,000 machine hours?
- (A) \$2,000  
 (B) \$3,000  
 (C) \$4,800  
 (D) \$5,000  
 (E) \$6,000
16. How is depreciation on equipment recorded?
- (A) Equipment Expense            XXXX  
       Equipment                                XXXX
- (B) Depreciation Expense  
     (equipment)                                XXXX  
       Accumulated Depreciation  
     (equipment)                                XXXX
- (C) Equipment Expense            XXXX  
       Accumulated Equipment  
     Expense                                        XXXX
- (D) Depreciation Expense            XXXX  
       Equipment                                XXXX
- (E) Accumulated Depreciation    XXXX  
       Depreciation Expense                XXXX
17. A company had net sales of \$27,900 in April. Beginning inventory was \$5,000. Net inventory purchases were \$15,000. Ending inventory was \$7,000. Total operating expenses were \$6,500. How much net income did the company earn in April?
- (A) \$ 8,400  
 (B) \$12,400  
 (C) \$13,000  
 (D) \$14,900  
 (E) \$21,400
18. Green Corporation with assets of \$5,000,000 and liabilities of \$2,000,000 has 6,000 shares of capital stock outstanding (par value \$300). What is the book value per share?
- (A) \$ 200  
 (B) \$ 300  
 (C) \$ 500  
 (D) \$ 833  
 (E) \$1,167
19. Cost of goods sold is determined by which of the following?
- (A) Beginning inventory plus net purchases minus ending inventory  
 (B) Beginning inventory plus purchases plus purchase returns minus ending inventory  
 (C) Beginning inventory minus net purchases plus ending inventory  
 (D) Purchases minus transportation-in plus beginning inventory minus ending inventory  
 (E) Net sales minus ending inventory
20. The owner's equity in a business increases from which of the following?
- I. Excess of revenue over expenses  
 II. Investments by the owner  
 III. Decrease in accounts payable
- (A) I only  
 (B) II only  
 (C) III only  
 (D) I and II only  
 (E) I, II, and III
21. The Accumulated Depreciation account should be shown in the financial statements as
- (A) an operating expense  
 (B) an extraordinary loss  
 (C) a liability  
 (D) stockholders' equity  
 (E) a contra (deduction) to an asset account

22. If an individual borrows \$95,000 in July of the current year from Community Bank by signing a \$95,000, 9 percent, one-year note, what is the accrued interest as of December 31 of the current year?
- (A) \$ 0  
 (B) \$2,138  
 (C) \$4,275  
 (D) \$6,413  
 (E) \$8,550
23. Net purchases for the year amounted to \$80,000. The merchandise inventory at the beginning of the year was \$19,000. On sales of \$120,000, a 30 percent gross profit on the selling price was realized. The inventory at the end of the year was
- (A) \$13,000  
 (B) \$15,000  
 (C) \$17,000  
 (D) \$25,000  
 (E) \$63,000
24. Which of the following investing activities appears on the statement of cash flows?
- (A) Selling a building  
 (B) Buying Treasury stock  
 (C) Selling Treasury stock  
 (D) Paying dividends  
 (E) Receiving interest income on a Note Receivable
25. In a limited partnership, limited partners are at risk for
- (A) the amount of their investment in the partnership  
 (B) their share of nonrecourse debt  
 (C) the total debts of the partnership  
 (D) their percentage of debts  
 (E) no amount
26. All of the following expenditures should be charged to an asset account rather than to an expense account of the current period EXCEPT the cost of
- (A) overhauling a delivery truck, which extends its useful life by two years  
 (B) purchasing a new component for a machine, which serves to increase the productive capacity of the machine  
 (C) constructing a parking lot for a leased building  
 (D) installing a new assembly line  
 (E) replacing worn-out tires on a delivery truck
27. The balance sheet of Harold Company shows current assets of \$200,000 and current liabilities of \$100,000. The company uses cash to acquire merchandise inventory. As a result of this transaction, which of the following is true of working capital and the current ratio?
- (A) Both are unchanged.  
 (B) Working capital is unchanged; the current ratio increases.  
 (C) Both decrease.  
 (D) Working capital decreases; the current ratio increases.  
 (E) Working capital decreases; the current ratio is unchanged.

28. Which of the following correctly indicates how retained earnings can be affected?
- (A) Increased by net income, increased by dividends, and unaffected by realized losses
  - (B) Increased by net income, increased by dividends, and increased by realized gains
  - (C) Increased by net income, decreased by dividends, and decreased by realized losses
  - (D) Decreased by net income, decreased by dividends, and decreased by realized losses
  - (E) Decreased by net income, increased by dividends, and unaffected by realized gains
29. On December 31, before making year-end adjusting entries, Accounts Receivable had a debit balance of \$80,000, and the Allowance for Uncollectible Accounts had a credit balance of \$3,500. Credit sales for the year were \$600,000. If credit losses are estimated at 1/2 percent of credit sales, which of the following is true?
- (A) The balance of the Allowance for Uncollectible Accounts will be \$500 after adjustment.
  - (B) The balance of the Allowance for Uncollectible Accounts will be \$3,500 after adjustment.
  - (C) The balance of the Allowance for Uncollectible Accounts will be \$6,500 after adjustment.
  - (D) The Uncollectible Accounts Expense for the year will be \$500.
  - (E) The Uncollectible Accounts Expense for the year will be \$6,500.
30. A company bought a patent at a cost of \$180,000. The patent had an original legal life of 17 years. The remaining legal life is 10 years, but the company expects its useful life will only be 6 years. When should the cost of the patent be charged to expenses?
- (A) Immediately
  - (B) Over the next 6 years
  - (C) Over the next 10 years
  - (D) Over the next 17 years
  - (E) Over the next 40 years
31. How is treasury stock reported on the balance sheet?
- (A) As an increase in liabilities
  - (B) As an increase in assets
  - (C) As a decrease in assets
  - (D) As an increase in stockholders' equity
  - (E) As a decrease in stockholders' equity
32. Cash: \$ 40,000  
 Accounts receivable: \$120,000  
 Inventory: \$300,000  
 Prepaid rent: \$ 2,000  
 Accounts payable: \$150,000  
 Salaries payable: \$ 7,000  
 Long-term bonds payable: \$200,000
- The selected accounts above are from TJ Supply's balance sheet. What is TJ Supply's working capital?
- (A) \$ 40,000
  - (B) \$105,000
  - (C) \$160,000
  - (D) \$305,000
  - (E) \$462,000
33. A machine with a useful life of eight years was purchased for \$600,000 on January 1. The estimated salvage value is \$50,000. What is the first year's depreciation by using the double-declining-balance method?
- (A) \$ 50,000
  - (B) \$ 68,000
  - (C) \$ 75,000
  - (D) \$137,500
  - (E) \$150,000

34. Newman Corporation uses the allowance method of accounting for its accounts receivable. The company currently has a \$100,000 balance in accounts receivable and a \$5,000 balance in its allowance for uncollectible accounts. The company decides to write off \$4,000 of its accounts receivable. What would be the balance in its net accounts receivable before and after the write-off?

<u>Before</u>	<u>After</u>
(A) \$ 95,000	\$ 91,000
(B) \$ 95,000	\$ 95,000
(C) \$100,000	\$ 96,000
(D) \$105,000	\$101,000
(E) \$105,000	\$105,000

35. Trading securities must be reported on the balance sheet at

- (A) historical cost
- (B) cost plus earnings minus dividends
- (C) book value
- (D) fair market value
- (E) net present value

36. Which of the following will be credited when recording an accrued expense?

- (A) A liability account
- (B) A revenue account
- (C) A prepaid expense account
- (D) An unearned revenue account
- (E) A contra owner's equity account

37. The L Company purchased new machinery and incurred the following costs:

Invoice price	\$30,000
Freight (F.O.B. shipping point)	\$ 2,000
Foundation for machinery	\$ 1,000
Installation costs	\$ 900
Annual maintenance of machinery	\$ 600

The recorded cost of the machinery is

- (A) \$30,000
- (B) \$31,900
- (C) \$32,000
- (D) \$33,900
- (E) \$34,500

38. ABC Company issued \$5,000,000 of bonds on January 1 receiving cash of \$5,300,000. Which of the following is true about the bonds?

- (A) The bonds were issued at a discount.
- (B) The bonds are not interest bearing.
- (C) The market value of the bonds on the date of issue was \$5,100,000.
- (D) The market quote for the bonds was 108.
- (E) The amount of annual interest expense will be less than the amount of interest paid annually in cash.

39. Brock Company purchased a patent for \$72,000 from Carter Company. The patent has a remaining legal life of 6 years, with an expected useful life of 4 years. The first year's amortization is

- (A) \$ 0
- (B) \$ 6,000
- (C) \$12,000
- (D) \$18,000
- (E) \$24,000

40. Which of the following is true of annual depreciation expense?
- (A) It represents the amount required for annual maintenance of a long-term asset.
  - (B) It represents the annual revenue earned by an asset.
  - (C) It allocates the cost of use of a long-term asset to the revenue that it generates.
  - (D) It is required to fulfill the economic entity assumption.
  - (E) It reduces cash.
41. Information in Covington Corporation's accounting records concerning its common stock shows that there are 100,000 shares authorized, 80,000 shares issued, and 5,000 shares held as treasury stock. If a \$3.00-per-share dividend is declared by the board of directors, the total amount of the cash dividend would be
- (A) \$ 15,000
  - (B) \$225,000
  - (C) \$240,000
  - (D) \$300,000
  - (E) \$315,000
42. The matching concept matches
- (A) customers with businesses
  - (B) expenses with revenues
  - (C) assets with liabilities
  - (D) creditors with businesses
  - (E) debits with credits
43. Cindy Company is preparing a bank reconciliation. Which of the following should be subtracted from the balance per bank statement to arrive at the adjusted cash balance?
- (A) Deposits in transit
  - (B) Bank service charge
  - (C) Interest credited to the account
  - (D) Outstanding checks
  - (E) Customer check returned for insufficient funds
44. Which of the following equals the net assets of a company?
- (A) Current assets minus current liabilities
  - (B) Total assets minus current liabilities
  - (C) Retained earnings
  - (D) Long-term assets minus accumulated depreciation
  - (E) Stockholders' equity
45. New World, Inc., purchased \$30,000 in goods on account that in turn were sold on account for \$35,000. If New World uses accrual accounting, how much should they record in expenses and revenue?
- (A) \$35,000 in revenue but no expenses
  - (B) \$30,000 in expenses but no revenue
  - (C) \$35,000 in revenue and \$30,000 in expenses
  - (D) \$30,000 in revenue and \$30,000 in expenses
  - (E) \$5,000 in revenue but no expenses
46. Sonny Corporation has a simple capital structure of 100,000 shares of \$1 par common stock and 20,000 shares of 5 percent preferred stock, \$50 par. Both classes of stock were outstanding for the entire year. During the year, the company reported net income of \$550,000 and declared dividends of \$75,000 and \$50,000 on the common stock and the preferred stock, respectively. Sonny's earnings per share for the year were
- (A) \$4.25
  - (B) \$4.58
  - (C) \$4.75
  - (D) \$5.00
  - (E) \$5.50

47. A machine that cost \$25,000 three years ago is sold in the current year for \$6,000. The accumulated depreciation taken on the machine was \$20,000. This sale would be reported in the current year's statement of cash flows as
- (A) \$25,000 outflow in the cash from investing activities section
  - (B) \$6,000 inflow in the cash from investing activities section
  - (C) \$1,000 inflow in the cash from investing activities section
  - (D) \$1,000 inflow in the cash from operations section
  - (E) \$1,000 inflow in the cash from financing activities section
48. Intangible assets include which of the following?
- (A) Unearned revenues
  - (B) Works of art
  - (C) Treasury bills
  - (D) Land improvements
  - (E) Patents
49. During the past year, a company reported net income of \$230,000. Depreciation expense was \$22,000. In December the company received \$7,000 representing rent for the next year on a vacant warehouse. What is the amount of cash provided by operating activities that should appear on a statement of cash flows?
- (A) \$215,000
  - (B) \$237,000
  - (C) \$245,000
  - (D) \$252,000
  - (E) \$259,000
50. Ling is an accountant at a publicly traded corporation. She recently discovered in the accounting records a material error that affected last year's financial statements and will affect this year's statements. If the error is not corrected, it will reverse itself this year and probably no one else will discover it. Even though last year's net income was materially overstated and this year's net income will be materially understated, the overall effect on the two years combined net incomes is that the overstatement and the understatement will completely offset each other. Which of the following is the best action that Ling should take?
- (A) Do nothing, since no one will be harmed because of the offset
  - (B) Immediately inform the local law enforcement agency
  - (C) Place a phone call to the local newspaper to inform the public about the error
  - (D) Immediately contact the Securities and Exchange Commission, since she is not sure what action her supervisor will take
  - (E) Inform her immediate supervisor and help correct last year's statements
51. Which of the following identifies the income statement items in their proper order as found in a correctly prepared income statement?
- (A) Gross profit, net income, cost of goods sold, operating expenses, sales
  - (B) Sales, operating expenses, cost of goods sold, gross profit, net income
  - (C) Sales, cost of goods sold, operating expenses, gross profit, net income
  - (D) Sales, cost of goods sold, gross profit, operating expenses, net income
  - (E) Gross profit, cost of goods sold, sales, operating expenses, net income

52. Magoo Wholesaler finds that 30 percent of its customers pay cash for their purchases. The rest buy on credit, 60 percent of which is collected in the month of purchase, and the rest in the month after purchase. If sales in January are \$120,000, what is the balance of accounts receivable on January 31?
- (A) \$ 0  
 (B) \$12,000  
 (C) \$33,600  
 (D) \$48,000  
 (E) \$50,400
53. If a company issues \$10,000,000 of 6 percent bonds at 105½, the amount of cash received from the sale is
- (A) \$10,000,000  
 (B) \$10,105,500  
 (C) \$10,512,000  
 (D) \$10,550,000  
 (E) \$10,600,000
54. On August 1, Carlos Company pays \$3,600 for a two-year insurance policy covering the period beginning September 1. How much insurance expense should be recognized by Carlos this year if the company reports on a calendar-year basis?
- (A) \$ 600  
 (B) \$ 750  
 (C) \$1,050  
 (D) \$1,800  
 (E) \$3,600
55. If a corporation has total assets of \$1,568,000, current liabilities of \$60,000, and long-term liabilities of \$388,000, what is its approximate debt-to-equity ratio?
- (A) 0.15  
 (B) 0.25  
 (C) 0.29  
 (D) 0.40  
 (E) 0.43
56. The lower of cost or market (LCM) is an application of
- (A) materiality  
 (B) conservatism  
 (C) the matching concept  
 (D) full disclosure  
 (E) the going-concern assumption
57. Cash is reported
- (A) in net sales on the income statement  
 (B) as cost of goods sold on the income statement  
 (C) as a liability on the balance sheet  
 (D) in the stockholders' equity section of the balance sheet  
 (E) as a current asset

58. Before the football season begins, a college football team receives \$12,000,000 from season-ticket holders for one year's home games. The team will play three home games in September, one in October, and two in November. How much revenue is recognized in September?

- (A) \$ 0
- (B) \$ 2,000,000
- (C) \$ 4,000,000
- (D) \$ 6,000,000
- (E) \$12,000,000

59. If net sales are \$2,000,000, operating expenses are \$300,000, and gross profit is \$360,000, how much is the cost of goods sold?

- (A) \$ 340,000
- (B) \$ 660,000
- (C) \$1,640,000
- (D) \$1,700,000
- (E) \$2,660,000

60. Stephanie Company reported net income of \$52,000 for the year. The net income includes depreciation expense of \$3,800 and a gain on sale of equipment of \$6,900. On the statement of cash flows, how much cash will Stephanie Company report from operating activities?

- (A) \$48,900
- (B) \$52,000
- (C) \$55,100
- (D) \$55,800
- (E) \$58,900

61. (1) Adjusted trial balance is prepared.  
 (2) Transactions are posted to ledgers.  
 (3) Transactions are recorded in a journal.  
 (4) Closing entries are made.  
 (5) Adjusting journal entries are made.  
 (6) Trial balance is prepared.  
 (7) Financial statements are prepared.

Each of the principal steps in the accounting cycle is identified above by a number. Which response lists the correct sequence of events in the accounting cycle?

- (A) 3, 2, 6, 5, 1, 7, 4
- (B) 3, 2, 1, 4, 5, 6, 7
- (C) 5, 1, 3, 4, 2, 7, 6
- (D) 5, 3, 2, 1, 4, 6, 7
- (E) 2, 3, 1, 6, 5, 4, 7

62. On November 1, Greenberg Partners pays \$7,200 for a one-year insurance policy, effective the same date. How much insurance expense should Greenberg Partners report for the year ending December 31 ?

- (A) \$ 0
- (B) \$ 600
- (C) \$1,200
- (D) \$6,000
- (E) \$7,200

63. Schreiber Industries estimates bad debts at 2% of sales. Schreiber began the year with \$270,000 of accounts receivable and \$38,600 of allowance for bad debts. During the year, Schreiber had sales of \$920,000, wrote off bad debts of \$26,000, and received cash on account of \$905,000. What amount of accounts receivable, net of allowance for bad debts, should appear on the year-end balance sheet?

- (A) \$213,000
- (B) \$228,000
- (C) \$254,000
- (D) \$259,000
- (E) \$266,600



64. Gross profit margin is useful for evaluating

- (A) solvency
- (B) liquidity
- (C) turnover
- (D) leverage
- (E) profitability

65. Belford Brothers, Inc., has 10 percent noncumulative, nonparticipating preferred stock outstanding with a par value of \$200,000. The company also has common stock outstanding with a par value of \$800,000. In Belford's first year of operation, no dividends were paid, but during the second year, Belford declared dividends of \$60,000. How should the dividends be distributed that year between the two classes of stock?

	Preferred Stock	Common Stock
(A) \$	0	\$60,000
(B)	\$20,000	\$40,000
(C)	\$25,000	\$35,000
(D)	\$30,000	\$30,000
(E)	\$40,000	\$20,000

66. Falcon, Inc., a manufacturer and supplier of kitchen appliances, provides a two-year warranty on component parts at no cost. Which accounting principle requires Falcon to recognize as an expense the estimated cost of fulfilling a warranty in the year the equipment is sold?

- (A) Cost principle
- (B) Matching principle
- (C) Going-concern principle
- (D) Entity principle
- (E) Consistency principle

67. Longshore Group bought a piece of equipment for use in its operations under the following terms: 5 annual payments of \$64,000 for the equipment, including interest. Although the list price of the equipment was \$315,000, Longshore Group could have bought it for \$300,000 cash. Salvage value is \$20,000. Which amount should Longshore Group use to record the purchase of the machine on its books?

- (A) \$280,000
- (B) \$295,000
- (C) \$300,000
- (D) \$315,000
- (E) \$320,000

68. The owner of a small business paid the property taxes on her personal residence from the business checking account. The payment should be charged to which of the following?

- (A) Wages
- (B) Property taxes
- (C) Rent
- (D) Withdrawals
- (E) Building

69. What is the purpose of closing entries?

- (A) To reduce revenues, expenses, and dividends to zero for the next accounting period
- (B) To correct errors
- (C) To remove liabilities from the accounting records
- (D) To verify that the accounting equation is balanced
- (E) To accrue revenues and expenses

70. A customer ordered merchandise from Van Lieshaut, Inc., on March 3. Van Lieshaut processed the order on March 5 and emailed the customer verifying that the order was ready. On March 8 the customer picked up the merchandise and signed the billing invoice. On March 12 the customer sent a check in payment for the merchandise, which was received by Van Lieshaut on March 15. On which day should Van Lieshaut recognize revenue from the sale?
- (A) March 3  
 (B) March 5  
 (C) March 8  
 (D) March 12  
 (E) March 15
71. On January 1 of the current year, beginning inventory for a furniture company was \$35,000. During the year, the company purchased \$242,000 inventory. On December 31 of the current year, the company had inventory of \$26,000. What was cost of goods sold for the year?
- (A) \$207,000  
 (B) \$233,000  
 (C) \$242,000  
 (D) \$251,000  
 (E) \$277,000
72. Which of the following businesses is most likely to use specific identification in recording inventory purchases and cost of goods sold?
- (A) A supermarket  
 (B) A clothing store  
 (C) An auto parts store  
 (D) A bookstore  
 (E) An art dealer
73. In a statement of cash flows prepared using the indirect method, which of the following is deducted from net income to determine cash provided by operating activities?
- (A) Gain on sale of land  
 (B) Payment of dividends  
 (C) Depreciation expense  
 (D) Purchase of equipment  
 (E) Issue of common stock
74. Perfumes by Gladys purchased a patent at the beginning of year 1 at a cost of \$72,000. The patent had a remaining legal life of 9 years but was expected to be useful for only 6 years. Early in year 3, Perfumes by Gladys realized that the benefits of owning the patent would disappear at the end of year 4. How much patent amortization expense should be recognized in year 3 ?
- (A) Zero  
 (B) \$8,000  
 (C) \$12,000  
 (D) \$24,000  
 (E) \$28,000
75. A corporation bought a piece of used equipment by exchanging 20,000 shares of treasury stock. The treasury stock had a par value of \$10 per share and had been originally issued for \$14 per share. The current fair market value of the treasury stock is \$13 per share. The equipment had been purchased by the seller three years earlier for \$300,000 but had accumulated depreciation of \$25,000. For what amount should the corporation record the purchase on its books?
- (A) \$200,000  
 (B) \$260,000  
 (C) \$275,000  
 (D) \$280,000  
 (E) \$300,000

**Directions:** Choose among the corresponding properties in each column for each entry by clicking on your choice. When you click on a blank cell, a check mark will appear. No credit is given unless the correct cell is marked for each entry.

76. At the end of Dugan Retail Corporation's first year of operation, it was determined that the company had overstated its ending inventory.

Indicate the effect that the overstatement will have on the first year's cost of goods sold and net income.

	Overstated	Understated	No Effect
Cost of goods sold			
Net income			

**Directions:** Select a choice and click on the blank in which you want the choice to appear. Repeat until all of the blanks have been filled. A correct answer must have a different choice in each blank.

77. Match each of the following terms with the corresponding asset category.

Depreciation
Depletion
Amortization

Intangible assets \_\_\_\_\_

Tangible assets \_\_\_\_\_

Natural resources \_\_\_\_\_

### Study Resources

Most textbooks used in the first semester of college-level financial accounting courses cover the topics in the outline given earlier, but the approaches to certain topics and the emphases given to them may differ. To prepare for the Financial Accounting exam, it is advisable to study one or more college textbooks, which can be found in most college bookstores. When selecting a textbook, check the table of contents against the knowledge and skills required for this test.

Visit [clep.collegeboard.org/test-preparation](http://clep.collegeboard.org/test-preparation) for additional financial accounting resources. You can also find suggestions for exam preparation in Chapter IV of the *Official Study Guide*. In addition, many college faculty post their course materials on their schools' websites.

### Answer Key

1. E	40. C
2. E	41. B
3. C	42. B
4. C	43. D
5. E	44. E
6. A	45. C
7. C	46. D
8. A	47. B
9. B	48. E
10. A	49. E
11. E	50. E
12. E	51. D
13. B	52. C
14. C	53. D
15. E	54. A
16. B	55. D
17. A	56. B
18. C	57. E
19. A	58. D
20. D	59. C
21. E	60. A
22. C	61. A
23. B	62. C
24. A	63. B
25. A	64. E
26. E	65. B
27. A	66. B
28. C	67. C
29. C	68. D
30. B	69. A
31. E	70. C
32. D	71. D
33. E	72. E
34. B	73. A
35. D	74. D
36. A	75. B
37. D	76. See below
38. E	77. See below
39. D	

76. Cost of goods sold—Understated  
Net income—Overstated

77. Intangible assets—Amortization  
Tangible assets—Depreciation  
Natural resources—Depletion

## Test Measurement Overview

### Format

There are multiple forms of the computer-based test, each containing a predetermined set of scored questions. The examinations are not adaptive. There may be some overlap between different forms of a test: any of the forms may have a few questions, many questions, or no questions in common. Some overlap may be necessary for statistical reasons.

In the computer-based test, not all questions contribute to the candidate’s score. Some of the questions presented to the candidate are being pretested for use in future editions of the tests and will not count toward his or her score.

### Scoring Information

CLEP examinations are scored without a penalty for incorrect guessing. The candidate’s raw score is simply the number of questions answered correctly. However, this raw score is not reported; the raw scores are translated into a scaled score by a process that adjusts for differences in the difficulty of the questions on the various forms of the test.

### Scaled Scores

The scaled scores are reported on a scale of 20–80. Because the different forms of the tests are not always exactly equal in difficulty, raw-to-scale conversions may in some cases differ from form to form. The easier a form is judged to be, the higher the raw score required to attain a given scaled score. **Table 1** indicates the relationship between number correct (raw score) and scaled score across all forms.

### The Recommended Credit-Granting Score

Table 1 also indicates the recommended credit-granting score, which represents the performance of students earning a grade of C in the corresponding course. The recommended B-level score represents B-level performance in equivalent course work. These scores were established as the result of a Standard Setting Study, the most recent having been conducted in 2006. The recommended credit-granting scores are based upon the judgments of a panel of experts currently teaching equivalent courses at various colleges and universities. These experts evaluate each question in order to determine

the raw scores that would correspond to B and C levels of performance. Their judgments are then reviewed by a test development committee, which, in consultation with test content and psychometric specialists, makes a final determination. The standard-setting study is described more fully in the earlier section entitled “CLEP Credit Granting” on page 5.

Panel members participating in the most recent study were:

Bill Alexander	Indian Hills Community College
Joyce Barden	DeVry University — Phoenix
Cynthia Bolt	The Citadel
Nat Briscoe	Northwestern State University
Lynn Clements	Florida Southern College
Grover Cleveland	Metropolitan State University
Lauretta Cooper	Delaware Technical & Community College
Cheryl Corke	SUNY — Genesee Community College
Kate Demarest	Carroll Community College
Andrew Dressler	Walla Walla College
Patti Fedje	Minot State University
Adele Harrison	College of St. Mary
Sharon Huxley	Post University
Fannie Malone	Texas Southern University
Jennifer Niece	Assumption College
Jan Pitera	SUNY — Broome Community College
Kay Poston	South University
Sharon Salem	Westminster College
Glade Tew	Brigham Young University — Hawaii
Jim Thomas	Indiana University Northwest
Geoffrey Turck	Highline Community College
Dorothy Wallace	Chowan University
Connie White	Southern West Virginia Community & Technical College

After the recommended credit-granting scores are determined, a statistical procedure called scaling is applied to establish the exact correspondences between raw and scaled scores. Note that a scaled score of 50 is assigned to the raw score that corresponds to the recommended credit-granting score for C-level performance, and a high but usually less-than-perfect raw score is selected and assigned a scaled score of 80.

## Table 1: Financial Accounting Interpretive Score Data

American Council on Education (ACE) Recommended Number of Semester Hours of Credit: 3

Course Grade	Scaled Score	Number Correct
	80	65
	79	64
	78	63
	77	62
	76	61
	75	60
	74	59
	73	58
	72	57
	71	56
	70	55
	69	54
	68	53
	67	52
	66	51
<b>B</b>	<b>65</b>	<b>50</b>
	64	49
	63	48
	62	47
	61	46
	60	45
	59	44
	58	43
	57	42
	56	41
	55	40
	54	39
	53	38
	52	37
	51	36
<b>C</b>	<b>50*</b>	<b>35-36</b>
	49	34-35
	48	33-34
	47	32-33
	46	31-32
	45	30-31
	44	29-30
	43	28-29
	42	27-28
	41	26-27
	40	26
	39	25
	38	24
	37	23
	36	22
	35	21
	34	20
	33	19
	32	18
	31	17
	30	16
	29	15
	28	14-15
	27	13-14
	26	13
	25	12
	24	11
	23	10
	22	9
	21	8
	20	0-7

\*Credit-granting score recommended by ACE.

**Note:** The number-correct scores for each scaled score on different forms may vary depending on form difficulty.

## Validity

Validity is a characteristic of a particular use of the test scores of a group of examinees. If the scores are used to make inferences about the examinees' knowledge of a particular subject, the validity of the scores for that purpose is the extent to which those inferences can be trusted to be accurate.

One type of evidence for the validity of test scores is called content-related evidence of validity. It is usually based upon the judgments of a set of experts who evaluate the extent to which the content of the test is appropriate for the inferences to be made about the examinees' knowledge. The committee that developed the CLEP Financial Accounting examination selected the content of the test to reflect the content of Financial Accounting courses at most colleges, as determined by a curriculum survey. Since colleges differ somewhat in the content of the courses they offer, faculty members should, and are urged to, review the content outline and the sample questions to ensure that the test covers core content appropriate to the courses at their college.

Another type of evidence for test-score validity is called criterion-related evidence of validity. It consists of statistical evidence that examinees who score high on the test also do well on other measures of the knowledge or skills the test is being used to measure. Criterion-related evidence for the validity of CLEP scores can be obtained by studies comparing students' CLEP scores with the grades they received in corresponding classes, or other measures of achievement or ability. CLEP and the College Board conduct these studies, called Admitted Class Evaluation Service or ACES, for individual colleges that meet certain criteria at the college's request. Please contact CLEP for more information.

## Reliability

The reliability of the test scores of a group of examinees is commonly described by two statistics: the reliability coefficient and the standard error of measurement (SEM). The reliability coefficient is the correlation between the scores those examinees get (or would get) on two independent replications of the measurement process. The reliability coefficient is intended to indicate the

stability/consistency of the candidates' test scores, and is often expressed as a number ranging from .00 to 1.00. A value of .00 indicates total lack of stability, while a value of 1.00 indicates perfect stability. The reliability coefficient can be interpreted as the correlation between the scores examinees would earn on two forms of the test that had no questions in common.

Statisticians use an internal-consistency measure to calculate the reliability coefficients for the CLEP exam.<sup>1</sup> This involves looking at the statistical relationships among responses to individual multiple-choice questions to estimate the reliability of the total test score. The SEM is an estimate of the amount by which a typical test-taker's score differs from the average of the scores that a test-taker would have gotten on all possible editions of the test. It is expressed in score units of the test. Intervals extending one standard error above and below the true score for a test-taker will include 68 percent of that test-taker's obtained scores. Similarly, intervals extending two standard errors above and below the true score will include 95 percent of the test-taker's obtained scores. The standard error of measurement is inversely related to the reliability coefficient. If the reliability of the test were 1.00 (if it perfectly measured the candidate's knowledge), the standard error of measurement would be zero.

An additional index of reliability is the conditional standard of error of measurement (CSEM). Since different editions of this exam contain different questions, a test-taker's score would not be exactly the same on all possible editions of the exam. The CSEM indicates how much those scores would vary. It is the typical distance of those scores (all for the same test-taker) from their average. A test-taker's CSEM on a test cannot be computed, but by using the data from many test-takers, it can be estimated. The CSEM estimate reported here is for a test-taker whose average score, over all possible forms of the exam, would be equal to the recommended C-level credit-granting score.

*Scores on the CLEP examination in Financial Accounting are estimated to have a reliability coefficient of 0.90. The standard error of measurement is 3.67 scaled-score points. The conditional standard error of measurement at the recommended C-level credit-granting score is 3.96 scaled-score points.*

<sup>1</sup> The formula used is known as Kuder-Richardson 20, or KR-20, which is equivalent to a more general formula called coefficient alpha.