

CLEP® Financial Accounting: At a Glance

Description of the Examination

The CLEP® 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.

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% General Topics

- Generally accepted accounting principles
- Rules of double-entry accounting/transaction analysis/accounting equation
- The accounting cycle
- Business ethics
- Purpose of, presentation of, and relationships between financial statements
- Forms of business

20–30% The Income Statement

- Presentation format issues
- Recognition of revenue and expenses
- Cost of goods sold
- Irregular items (e.g., discontinued operations, extraordinary items, etc.)
- Profitability analysis

30–40% The Balance Sheet

- Cash and internal controls
- Valuation of accounts and notes receivable (including bad debts)
- Valuation of inventories
- Acquisition and disposal of long-term asset
- Depreciation/amortization/depletion
- Intangible assets (e.g., patents, goodwill, etc.)
- Accounts and notes payable
- Long-term liabilities (e.g., bonds payable)
- Owner's equity
- Preferred and common stock
- Retained earnings
- Liquidity, solvency and activity analysis

5–10% Statement of Cash Flows

- Indirect method
- Cash flow analysis
- Operating, financing and investing activities

Less than 5% Miscellaneous

- Investments
- Contingent liabilities

Study Resources

Most textbooks used in the first semester of college-level financial accounting courses cover the topics in the outline on this page, 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 online or in most college bookstores.

A recent survey conducted by CLEP found that the following textbooks are among those used by college faculty who teach the equivalent course. Most of these also have companion websites containing additional practice items. You might find one or more of these for sale online or at your local college bookstore. HINT: Look at the table of contents first to make sure it covers the topics required for this exam.

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Horngrén et al., <i>Introduction to Financial Accounting</i> (Prentice Hall)
Libby, Libby and Short, <i>Financial Accounting</i> (McGraw-Hill)
Needles and Powers, <i>Financial Accounting</i> (South-Western)
Phillips, Libby and Libby, <i>Fundamentals of Financial Accounting</i> (McGraw-Hill)
Pollard, Mills, and Harrison, <i>Financial and Managerial Accounting</i> (Prentice Hall)
Porter and Norton, <i>Financial Accounting: The Impact on Decision Makers</i> (South-Western)
Pratt, <i>Financial Accounting in an Economic Context</i> (Wiley)
Reimers, <i>Financial Accounting</i> (Prentice Hall)
Rich et al., <i>Cornerstones of Financial Accounting</i> (South-Western)
Shim and Siegel, <i>Schaum's Outline of Financial Accounting</i> (McGraw-Hill)
Stickney and Weil, <i>Financial Accounting: An Introduction to Concepts, Methods and Uses</i> (South-Western)
Warren, Reeve, and Duchac, <i>Financial Accounting</i> (South-Western)
Werner and Jones, <i>Introduction to Financial Accounting: A User Perspective</i> (Prentice Hall)
Weygandt et al., <i>Financial Accounting</i> (Wiley)
Wild, <i>Financial Accounting Fundamentals</i> (McGraw-Hill/Irwin)
Williams et al., <i>Financial Accounting</i> (McGraw-Hill/Irwin)

These resources, compiled by the CLEP test development committee and staff members, may help you study for your exam. However, none of these sources are designed specifically to provide preparation for a CLEP exam. The College Board has no control over their content and cannot vouch for accuracy.

<http://www.principlesofaccounting.com> (free online textbook by Larry Walther, Utah State University)

<http://www.businessbookmall.com/Financial%20Accounting%20Book.htm> (free Financial Accounting book and practice materials)

<http://ocw.mit.edu/OcwWeb/Sloan-School-of-Management/15-511Summer2004/CourseHome/index.htm>
(MIT open courseware Financial Accounting course)

<http://www.cbpp.uaa.alaska.edu/afrfb/acct201/acct201.htm>
(University of Alaska-Anchorage Principles of Financial Accounting course)

Visit www.collegeboard.com/clepprep for additional financial accounting resources. You can also find suggestions for exam

preparation in Chapter IV of the *CLEP Official Study Guide*. In addition, many college faculty post their course materials on their schools' websites.

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. For more sample questions and info about the test, see the *CLEP Official Study Guide*.

- ONECO gives a one-year warranty on all of its equipment. In January, a customer placed an order for a piece of equipment. The equipment was delivered and billed in February. The customer remitted half of the cash due in March and the other half in April. According to the matching principle of accounting, in which month should ONECO report estimated warranty expense related to the sale?
(A) January
(B) February
(C) March
(D) April
(E) December
- Which of the following affects both the balance sheet and the income statement?
(A) Purchase of inventory
(B) Retirement of a fully depreciated machine
(C) Collection of accounts receivable
(D) Amortization of prepaid insurance
(E) Declaration of a cash dividend
- A company's beginning inventory is \$20,000, purchases for a period are \$240,000, and ending inventory is \$30,000. How much is cost of goods sold?
(A) \$220,000
(B) \$230,000
(C) \$240,000
(D) \$250,000
(E) \$290,000

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4. Which of the following appears separately, net of income tax, on an income statement?

- (A) Gross profit
- (B) Gain on sale of a truck
- (C) Interest expense
- (D) Loss on discontinued operations
- (E) Sales discount

5. A mortgage of \$420,000 has principal payments totaling \$120,000 that are due within the next year. The remaining \$300,000 is not due until after one year. How is the mortgage shown on the balance sheet?

- (A) As a current liability of \$420,000
- (B) As a long-term liability of \$420,000
- (C) As another liability of \$420,000 with a footnote breaking out current and long-term portions
- (D) As a current liability of \$120,000 and a long-term liability of \$300,000
- (E) As a disclosure item only

6. The inventory data for an item for July are as follows.

July 1	Inventory	10 units at \$15
July 3	Sold	5 units
July 10	Purchased	12 units at \$16
July 18	Sold	8 units
July 27	Purchased	15 units at \$17

Using the perpetual system, costing by the first-in, first-out (FIFO) method, what is the cost of the ending inventory on July 31?

- (A) \$255
- (B) \$360
- (C) \$376
- (D) \$384
- (E) \$399

7. In which section(s) of the cash flow statement do interest paid and dividends paid appear?

	<i>Interest Paid</i>	<i>Dividends Paid</i>
(A)	Financing	Financing
(B)	Financing	Investing
(C)	Financing	Operating
(D)	Investing	Investing
(E)	Operating	Financing

Credit Recommendations

The American Council on Education has recommended that colleges grant 3 credits for a score of 50, which is equivalent to a course grade of C, on the CLEP Financial Accounting exam. Each college, however, is responsible for setting its own policy. For candidates with satisfactory scores on the Financial Accounting examination, colleges may grant credit toward fulfillment of a distribution requirement, or for a particular course that matches the exam in content. Check with your school to find out the score it requires for granting credit, the number of credit hours granted and the course that can be bypassed with a passing score.

Answers to Sample Questions: 1-B; 2-D; 3-B; 4-D; 5-D; 6-E; 7-E.