CLEP® Financial Accounting Examination

The College-Level Examination Program® (CLEP) is introducing a Financial Accounting exam in 2007. The redesigned exam will replace CLEP Principles of Accounting.

The development of the redesigned Financial Accounting exam was recommended by faculty serving on the CLEP accounting committee based on their assessment of the academic environments at their institutions, a catalog search conducted by CLEP, and a curriculum survey. Results of both the catalog search and the curriculum survey showed that at many institutions, financial accounting and managerial accounting are often taught in separate courses. The current Principles of Accounting exam, which tests knowledge of both branches of accounting, will be replaced by the one-semester Financial Accounting exam.

The current members of the Accounting Test Development Committee are:

- Robert DePasquale, Chair, Saint Vincent College, Latrobe, Pennsylvania
- Behnaz Z. Quigley, Marymount University, Arlington, Virginia
- Rahnl Wood, Northwest Missouri State University, Maryville, Missouri

Timeline
The American Council on Education (ACE) will review the CLEP Financial Accounting exam prior to its release. A Web-based standard setting will be conducted by college faculty members in May 2006 to help determine the appropriate credit-granting scores. A credit-granting recommendation will be issued from ACE and the College Board in the summer of 2006. The first exams will be administered in midwinter 2007.

About the Exam
The purpose of the exam is to assess student mastery of the skills and concepts required for success in a first-semester financial accounting course. Exam questions will require students 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 problem-solving situations involving computations
- Understanding the rationale for generally accepted accounting principles and procedure

© 2006 The College Board. All rights reserved. College Board, College-Level Examination Program, CLEP, and the acorn logo are registered trademarks of the College Board.
The computer-delivered exam will be 90 minutes in length and consist of 75 questions. Although most of the questions on the exam are multiple-choice, some involve new item types, such as putting options in order.

**Exam Specifications**

- ~20–30% General Topics
- ~20–30% The Income Statement
- ~30–40% The Balance Sheet
- ~5–10% The Statement of Cash Flows
- ~<5% Miscellaneous

**Sample Questions**

1. What is the number of days’ inventory on hand for a firm with cost of goods sold of $750,000 and average ending inventory of $150,000?

   (A) 5  
   (B) 10  
   (C) 20  
   (D) 50  
   (E) 73

2. 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) $239,000  
   (B) $225,000  
   (C) $211,000  
   (D) $252,000  
   (E) $266,000

3. 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
4. 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

5. An inventory valuation method usually 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

6. Return on assets helps users of financial statements evaluate which of the following?

(A) Profitability
(B) Liquidity
(C) Solvency
(D) Cash flow
(E) Reliability

7. The accounting concept that emphasizes the existence of a business firm separate and apart from its owners is ordinarily termed the

(A) business separation concept
(B) consistency concept
(C) going-concern concept
(D) business materiality concept
(E) business entity concept

8. One disadvantage of the corporation as compared with other types of business organizations is that

(A) greater legal liability is assigned to stockholders
(B) greater ethical responsibility is expected of officers and employees
(C) greater profit is required by owners
(D) shares of stock can be sold and transferred to new owners
(E) a greater tax burden is levied on the entity
9. The owner’s equity in a business may derive from which of the following sources?

I. Excess of revenue over expenses
II. Investments by the owner
III. Accounts payable

(A) I only
(B) II only
(C) III only
(D) I and II only
(E) I, II, and III

10. Land held for future use and not intended for operations should be classified as

(A) property, plant, and equipment
(B) an intangible asset
(C) inventory
(D) an investment
(E) a current asset

11. At the end of Dugan Retail Corporation’s first year of operation, it was determined that the company had overstated its merchandise inventory.

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

<table>
<thead>
<tr>
<th></th>
<th>Overstated</th>
<th>Understated</th>
<th>No Effect</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of goods sold</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net income</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Depreciation</th>
<th>Depletion</th>
<th>Amortization</th>
</tr>
</thead>
</table>

Intangible assets  ________________________________
Tangible assets  ________________________________
Natural resources  ________________________________

Select a choice and drag it to 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.

**Answer Key**

1. E
2. C
3. E
4. A
5. C
6. A
7. E
8. E
9. D
10. D

11. Cost of Goods Sold – Understated
    Net Income – Overstated

12. Intangible Assets – Amortization
    Tangible Assets – Depreciation
    Natural Resources – Depletion