

BAR Practice Questions

Olivia Anderson · True North Accounting & Business Solutions · Study notes for educational use. Always confirm details against the current AICPA Blueprints and authoritative standards.

Twenty-five exam-style multiple-choice questions weighted like the BAR blueprint: business analysis first, then technical accounting, then governments. Give yourself about 1.5 minutes per question.

Area I: Business Analysis

Question 1 · Medium

A company has net income of \$500,000, total assets of \$4,000,000 and total equity of \$2,000,000. What is return on assets?

- A. 12.5%
- B. 15.0%
- C. 20.0%
- D. 25.0%

Answer: A. $ROA = \$500,000 \div \$4,000,000 = 12.5\%$. For comparison, ROE is 25% and the equity multiplier is 2.0.

Question 2 · Hard

Using DuPont analysis, a company's ROE is 20%, its equity multiplier is 2.5 and its total asset turnover is 0.8. What is its net profit margin?

- A. 6.4%
- B. 8.0%
- C. 10.0%
- D. 12.5%

Answer: C. $20\% = \text{margin} \times 0.8 \times 2.5$, so $\text{margin} = 20\% \div 2.0 = 10\%$.

Question 3 · Medium

Inventory turnover is 8 times a year. About how many days is inventory held on average?

- A. 30 days
- B. 45.6 days
- C. 60 days
- D. 91.25 days

Answer: B. Days inventory outstanding = $365 \div 8 = 45.6$ days.

Question 4 · Easy

Which is an example of **predictive** analytics?

- A. Summarizing last year's sales by region
- B. Analyzing why sales declined in the third quarter
- C. Forecasting next year's revenue from historical trends
- D. Building a dashboard of current KPIs

Answer: C. Predictive analytics estimates what will happen. A and D are descriptive, and B is diagnostic.

Question 5 · Hard

Sales are \$5,000,000, fixed costs are \$1,200,000 and variable costs are 60% of sales. What is breakeven sales?

- A. \$2,000,000
- B. \$2,400,000
- C. \$3,000,000
- D. \$3,600,000

Answer: C. The contribution margin ratio is 40%. Breakeven = $\$1,200,000 \div 40\% = \$3,000,000$.

Question 6 · Medium

A company's capital structure is 60% equity and 40% debt at market values. The cost of equity is 12%, the pretax cost of debt is 8% and the tax rate is 25%. What is the weighted average cost of capital?

- A. 8.8%
- B. 9.6%
- C. 10.4%
- D. 11.2%

Answer: B. WACC = $60\% \times 12\% + 40\% \times 8\% \times (1 - 25\%) = 7.2\% + 2.4\% = 9.6\%$.

Question 7 · Medium

A \$50,000 project returns \$20,000 a year for three years. The required return is 10%, and the present value factor for a three-year annuity at 10% is 2.487. What should the company do?

- A. Accept, because total cash inflows exceed the investment
- B. Accept, because payback is under three years
- C. Reject, because NPV is negative
- D. Reject, because the IRR exceeds 10%

Answer: C. $NPV = \$20,000 \times 2.487 - \$50,000 = -\$260$. The project earns slightly less than 10%, so it should be rejected despite its 2.5-year payback.

Question 8 · Medium

A company bought 10,000 pounds of material at \$3.10 a pound. The standard price is \$3.00. What is the materials price variance?

- A. \$1,000 favorable
- B. \$1,000 unfavorable
- C. \$3,000 unfavorable
- D. \$3,100 unfavorable

Answer: B. $(\text{Actual price} - \text{standard price}) \times \text{actual quantity} = (\$3.10 - \$3.00) \times 10,000 = \$1,000 \text{ unfavorable}$, because the company paid more than standard.

Question 9 · Easy

In a balanced scorecard, "employee training hours per year" belongs to which perspective?

- A. Financial
- B. Customer
- C. Internal business processes
- D. Learning and growth

Answer: D. Learning and growth covers people, skills, systems and culture, which drive the other three perspectives.

Question 10 · Hard

A company produced 10,000 units and sold 8,000. Fixed manufacturing overhead was \$50,000, and there was no beginning inventory. How does absorption costing income compare with variable costing income?

- A. Absorption income is \$10,000 higher
- B. Absorption income is \$10,000 lower

- C. They're equal
- D. Absorption income is \$40,000 higher

Answer: A. Fixed overhead is \$5 per unit. Under absorption costing, \$10,000 (2,000 unsold units × \$5) stays in ending inventory instead of being expensed, so absorption income is **\$10,000 higher**.

Question 11 · Medium

A company raises its price by 10%, and the quantity demanded falls by 20%. What does this show?

- A. Demand is inelastic, so total revenue rises
- B. Demand is elastic, so total revenue falls
- C. Demand is unit elastic, so total revenue is unchanged
- D. Demand is perfectly inelastic

Answer: B. Price elasticity = $20\% \div 10\% = 2$, which is greater than 1, so demand is elastic. The price increase lowers total revenue.

Area II: Technical Accounting and Reporting

Question 12 · Hard

An acquirer pays \$300,000 for 70% of a company. The fair value of the 30% noncontrolling interest is \$150,000, and the fair value of identifiable net assets is \$400,000. What goodwill is recognized?

- A. \$0
- B. \$30,000
- C. \$50,000
- D. \$100,000

Answer: C. Consideration of \$300,000 plus NCI at fair value of \$150,000 equals \$450,000. Less net assets of \$400,000 leaves **\$50,000** of goodwill.

Question 13 · Medium

A reporting unit has a carrying amount of \$900,000, including \$200,000 of goodwill, and a fair value of \$750,000. What goodwill impairment is recognized?

- A. \$0
- B. \$50,000
- C. \$150,000

D. \$200,000

Answer: C. The impairment equals the excess of carrying amount over fair value, **\$150,000**, which is less than the \$200,000 of goodwill, so the cap doesn't apply.

Question 14 · Hard

An investor owns 30% of a company under the equity method, with a carrying amount of \$100,000. It buys another 30% for \$120,000 and obtains control. The fair value of the original 30% at that date is \$110,000. What does the investor recognize on the original interest?

- A. No gain or loss
- B. A \$10,000 gain in earnings
- C. A \$10,000 gain in OCI
- D. A \$20,000 gain in earnings

Answer: B. In a step acquisition, the previously held interest is remeasured to fair value at the acquisition date, with the gain or loss in earnings.

Question 15 · Medium

A parent sells equipment with a carrying amount of \$100,000 to its subsidiary for \$130,000. The subsidiary depreciates it straight-line over ten years. In each year after the sale, how is consolidated depreciation expense adjusted?

- A. No adjustment
- B. Decreased by \$3,000
- C. Increased by \$3,000
- D. Decreased by \$13,000

Answer: B. The subsidiary depreciates \$130,000, but the consolidated basis is \$100,000. Depreciation is reduced by $\$30,000 \div 10 = \textbf{\$3,000}$ a year.

Question 16 · Medium

A company grants 10,000 options with a \$6 grant-date fair value. They vest at the end of three years only if a revenue target is met. At the end of year 1, meeting the target is probable. What is compensation expense for year 1?

- A. \$0
- B. \$20,000
- C. \$30,000
- D. \$60,000

Answer: B. Total cost is \$60,000, recognized over three years when the performance condition is probable: **\$20,000** in year 1. If the target later becomes improbable, the cumulative expense is reversed.

Question 17 · Easy

A company buys \$300,000 of lab equipment that it will use on several research projects over ten years. How is the cost treated?

- A. Expensed immediately as R&D
- B. Capitalized and depreciated, with the depreciation reported as R&D expense
- C. Capitalized and never depreciated
- D. Capitalized as an intangible asset

Answer: B. Equipment with alternative future uses is capitalized. Its depreciation, \$30,000 a year under straight-line, is R&D expense. Equipment with no alternative future use is expensed immediately.

Question 18 · Medium

A software company licenses software and provides implementation services that significantly customize the software. How many performance obligations are there?

- A. One, combined
- B. Two, separate
- C. It depends on how the contract is priced
- D. None until implementation is complete

Answer: A. Because the implementation significantly modifies the software, the promises aren't separately identifiable and form one performance obligation. Routine implementation that others could perform would be a separate obligation.

Question 19 · Easy

Which hedge applies to the fair value exposure of an unrecognized firm commitment?

- A. Cash flow hedge
- B. Fair value hedge
- C. Net investment hedge
- D. None, because firm commitments can't be hedged

Answer: B. Fair value hedges cover recognized assets and liabilities and unrecognized firm commitments. Changes in the derivative and the hedged commitment both go to earnings.

Question 20 · Hard

Which condition makes a company the primary beneficiary of a variable interest entity?

- A. It owns 40% of the VIE's voting stock
- B. It has the power to direct the VIE's most significant activities and the obligation to absorb losses or right to receive benefits that could be significant
- C. It has a contract with the VIE
- D. It owns most of the VIE's debt securities

Answer: B. Both power and significant economics are required. Voting ownership alone doesn't determine consolidation of a VIE.

Area III: State and Local Governments

Question 21 · Medium

Under modified accrual accounting, when are revenues recognized in governmental funds?

- A. When earned
- B. When cash is received
- C. When measurable and available
- D. When budgeted

Answer: C. Available means collectible in the current period or soon enough afterward to pay current liabilities, usually within 60 days for property taxes.

Question 22 · Easy

Which is a governmental fund?

- A. Enterprise fund
- B. Internal service fund
- C. Debt service fund
- D. Pension trust fund

Answer: C. The governmental funds are general, special revenue, capital projects, debt service and permanent. Enterprise and internal service funds are proprietary, and pension trust funds are fiduciary.

Question 23 · Hard

A city receives \$500,000 in cash from the state for a road project. Under the grant's eligibility requirements, the city isn't entitled to the money until it incurs allowable construction costs, and none have been incurred yet. How does the general fund report the cash?

- A. Revenue of \$500,000
- B. Deferred inflow of resources of \$500,000
- C. Other financing source of \$500,000
- D. Liability of \$500,000

Answer: D. Resources received before eligibility requirements other than time requirements are met are reported as a **liability**, such as unearned revenue. Deferred inflows are used when only a time requirement is unmet.

Question 24 · Easy

Property taxes are an example of which type of nonexchange revenue?

- A. Exchange transaction
- B. Derived tax revenue
- C. Government-mandated nonexchange transaction
- D. Imposed nonexchange revenue

Answer: D. Imposed nonexchange revenues are assessed on nongovernmental parties without an exchange, like property taxes and fines. Derived tax revenues, such as sales and income taxes, arise from underlying exchange transactions.

Question 25 · Hard

Which adjustment is needed to reconcile total governmental fund balances to the net position of governmental activities?

- A. Subtract capital assets
- B. Add general long-term debt
- C. Add capital assets, net of depreciation, and subtract general long-term liabilities
- D. Subtract the net position of internal service funds

Answer: C. Capital assets and long-term liabilities are excluded from governmental funds, so they're added in. Internal service fund net position is typically added, and revenue deferred as unavailable in the funds is recognized.

Answer Key

1. A	2. C	3. B	4. C	5. C
6. B	7. C	8. B	9. D	10. A
11. B	12. C	13. C	14. B	15. B
16. B	17. B	18. A	19. B	20. B
21. C	22. C	23. D	24. D	25. C

Scoring: 23–25 correct, you’re ready. 20–22, review the ones you missed. 17–19, more study on weak areas. Below 17, work back through the BAR study guide first.